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EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

COMECON

Chief mourners at  
the funeral

Page 2

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Monday May 20 1991

## World News

### Pretoria tries to resolve Zulu spears controversy

The South African government will this week seek to resolve the dispute with the African National Congress which announced that it would boycott talks on a post-apartheid constitution.

President F.W. de Klerk is due to meet the Zulu King Goodwill Zwelithini early this week to discuss the banning of spears and sticks, which Zulu leaders claim are "cultural weapons" but which the ANC says provoke township violence. Page 18

### Croatian status poll

Voters in Yugoslavia's republic of Croatia went to the polls to decide whether the territory wished to become a "sovereign state", which may or may not become part of a Yugoslav "confederation". Page 2

### Kuwait trials start

Kuwait has begun trials of those accused of collaborating with the Iraqi occupation forces, leading to charges ranging from taking up arms to wearing Saddam Hussein T-shirts.

### Kurdish talks stalled

Final agreement over autonomy for Iraq's Kurds is being held up by a dispute over Kurdish demands that the oil-rich area around Kirkuk be included in the autonomous region. Page 3

### Mengistu threatened

Ethiopian rebels claimed to have dealt their most devastating blow to the regime of President Mengistu Haile Mariam, advancing to within 90km of the capital, cutting off a strategic road and seizing three key towns. Page 4

### Greek Cypriots vote

Greek Cypriots elected a new parliament amid speculation over fresh Turkish proposals for reunifying the island which have been partitioned for 17 years. Page 5

### Brazil strike threat

Brazilian labour leaders have called a two-day national strike for May 22-23 to protest against the government's anti-inflationary economic policies.

### South Koreans clash

South Korean dissidents clashed with police in Kwangju after a young woman died of burns in a protest suicide.

### Lebanese high alert

The Lebanese army went on high alert in the south after Israeli warplanes attacked a guerrilla base in what the Defence Ministry called an attempt to "hasten the march of peace".

### Polish dispute ends

Some 20,000 Polish striking copper ore miners agreed to return to work after a six-day stoppage in the south-west Lublin area. Page 3

### Jail riot claims 19

Mexican police said they were in full control of an overcrowded state prison in Matamoros near the Texas border after 19 inmates were killed in a riot triggered by a clash between rival drug gangs.

### Price of progress

Indonesia has officially inaugurated a World Bank-funded dam in central Java despite the protests of 600 families who have refused to leave the site. President Suharto told them that "development requires sacrifice".

### The UK's opposition Labour Party could be in power within a few months. Over the next few weeks, starting today, the Financial Times will take a detailed look at Labour's policies in a series of editorials to assess if the party is ready for government

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## Business Summary

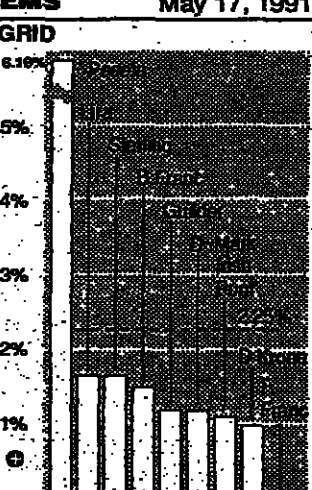
### VEV losses of FF800m confirm worst forecasts

VEV, the debt-ridden French textiles group, has finally announced net losses of FF800m (\$127.7m) for 1990, confirming analysts' worst forecasts. The group, temporarily rescued from bankruptcy by bankers and the French government, said operating losses totalled FF270m as sales fell by 14 per cent. Page 19

### EUROPEAN Monetary System

A cut in the Bank of Spain's money market intervention rate, the main instrument of monetary policy, produced only a temporary easing of pressure in the European exchange rate mechanism. The French franc finished near its floor against the peseta despite the Bank of France's decision not to follow the Spanish move. Speculation that the Bank of England might cut rates also proved unfounded. Currencies, Page 29

### EMS May 17, 1991



The chart shows member currencies of the exchange rate mechanism measured against the weakest currency in EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

### SEMICONDUCTORS: US and Japanese trade officials failed to settle their differences over a new pact on foreign access to Japan's semiconductor market. Page 4

### FILKINGTON: UK glass-maker is to sell Coburn Optical Industries, part of its US eye care business. Page 20

### US budget deficit may be less than expected in the current fiscal year despite falling tax receipts. Page 4

### TOBACCO: European Community's retail tobacco market worth \$50bn in 1989, would not be affected by an advertising ban, according to the confederation of EC cigarette manufacturers. Page 19

### SINGAPORE Airlines posted a 24 per cent fall in after tax profits for year ended March 1991. Page 21

### ANDEAN Pact: Presidents of Bolivia, Colombia, Ecuador, Peru and Venezuela signed an accord designed to implement an Andean regional free trade zone by 1995. Page 4

### DALGETY: UK food and agribusiness group, is expected to announce itself prepared for a major European acquisition after disposal of US produce interests. Page 19

## Moscow seeks to remove barrier to foreign investment

By Leyla Boulton in Moscow

THE Soviet Union plans to introduce partial convertibility of the rouble next year to encourage foreign investment and bring the country closer to a market economy.

The plans for internal convertibility of the currency, disclosed by Mr Viktor Geraschenko, chairman of the Soviet central bank, at the weekend, will require substantial western credits to boost the Soviet Union's scarce hard currency reserves.

The move, discussed last Thursday by the Soviet cabinet and republican representatives, would allow Soviet and foreign enterprises to sell and buy roubles for hard currency at market rates. Foreign investors would be able to repatriate profits in hard currency.

Internal convertibility falls short of full convertibility in so far as Soviet enterprises would still not be allowed to invest hard currency abroad. The Soviet government will need extra hard currency reserves to support the rouble in foreign exchange markets.

The Gosbank chief also said the introduction of a convertible currency presupposed the implementation of tough domestic reforms, such as further price liberalisation and moves to demopolise Soviet industry.

He warned that making the rouble convertible would pose "serious problems" for Soviet enterprises which needed hard currency to import raw materials and components, since they would have to pay a full market rate for hard currency and not one set by the state as in the past.

Mr Geraschenko said that the plan for partial convertibility, which would be completed by July 1, would be submitted for examination "abroad" and by the International Monetary Fund in particular.

"At present we should think what to be done so that major financial organisations can grant us most favoured nation status," he said in an interview with Izvestiya, the government newspaper.

He also acknowledged that a common front by the central government and Soviet republics was essential to obtain foreign support.

Mr Geraschenko's announcement coincides with intensive Soviet efforts to obtain the support of the G-7 group of industrial nations in return for genuine market reforms by the Soviet Union.

The IMF provides balance of payments assistance for countries which undertake structural adjustments meeting the Fund's criteria for reform. IMF support also unlocks other sources of western funding, but the Soviet Union's request for membership has so far been held up by western scepticism over Soviet reform plans

advanced up to now.

Mr Grigory Yavlinsky, a leading Soviet economist, left for the United States yesterday to continue work with economists close to the US administration on a programme for radical economic reform based on co-operation with the West.

His mission has the blessing not only of President Gorbachev, but of Mr Boris Yeltsin, the Russian leader, as well as of Mr Nursultan Nazarbayev, the president of Kazakhstan, who are all signatories to a joint declaration pledging a common approach to economic reform.

Mr Yavlinsky, a former Russian deputy prime minister, is also actively involved in negotiations for President Mikhail Gorbachev to attend the Group of Seven's London summit in July.

Mr Valentin Pavlov, the Soviet Prime Minister, said in a recent interview that President Gorbachev's main request, if he is invited to the G-7 summit, would focus on assistance for making the rouble convertible.

The Soviet government has already taken small steps towards convertibility, for instance by setting up currency trading for banks, and by approximating the exchange rate charged to tourists with black market rates.

Battle for presidency begins, Page 18; Comecon, Page 2

## US rejects World Bank proposals

By Peter Riddell, US Editor in Washington

A RIFT between the World Bank and the US over funding has widened after the US's rejection of World Bank compromise proposals aimed at promoting the private sector in developing countries.

The US administration is insisting on the issue being resolved before it stops blocking a large capital increase for the International Finance Corporation (IFC), the affiliate of the World Bank which lends to, and takes equity investments in, private sector companies.

While generally backing the work of the IFC, the US favours smaller capital increases than the doubling of the present \$1.5bn (\$750m)

urged by the IFC's management and backed by Germany and Britain. The US favours a rise of between \$700m and \$800m and has questioned whether the IFC cannot raise more money internally, by improving its rate of return.

The US argues that a plan to increase private sector involvement put forward in April 1989 has never been implemented and that too much of the bank's philosophy is based on public sector solutions.

The IFC's management is angry over the dispute which, if it delays the capital increase, may slow the growth of programmes to assist the private sector. The IFC has become very active in assisting reform

in eastern Europe.

The US has separately been questioning some of the IFC's rates of return figures, arguing that there is more scope for self-financing and maintaining that IFC could continue to grow at 8 to 10 per cent a year even without any capital increase.

The differences between the US and the bank's management are due to be taken up at a board meeting on Thursday. But unless agreement is reached within the next few weeks there will not be time for the US Congress to approve the necessary legislation authorising the additional US contribution for the coming fiscal year. The US is under pres-



Boris Yeltsin, taking a break during a game of tennis in Moscow at the weekend, is a candidate in the first direct elections for president of the Russian Republic. Page 18

## Indian voters choose lotus, hand or wheel

By David Housego in New Delhi

IN RURAL INDIA, where most voters live, today is the day of the "hand", the "lotus" and the "wheel".

The "hand" is the symbol of Mr Rajiv Gandhi's Congress Party, the "lotus" that of the Hindu revivalist Bharatiya Janata Party and the "wheel" represents the Janata Dal of former Prime Minister V.P. Singh. The parties are the three main contestants in the general election for which polling begins today and continues in two further phases on Wednesday and Sunday.

In a country of 38 per cent literacy, the majority of voters only know the party of their choice by its symbol. As the campaign gathered momentum in the heat of mid-summer, parties have festooned their symbols across every available corner of space.

The party signs are everywhere: scrawled on the outside of village houses; strung across the street like flags; and on posters stuck on the back of buses and of "auto-rickshaws".

When voters go into the seclusion of the polling booth today, most will look for a party symbol on the ballot paper handed to them. Continued on Page 18

## ICI finalises secret strategy to fight potential bid from Hanson

By Clive Cookson in London

IMPERIAL Chemical Industries (ICI), the world's fourth largest chemical group and Britain's largest manufacturing company, yesterday put the finishing touches to a secret plan to defend itself against a possible bid from Hanson, the acquisitive conglomerate which last Tuesday acquired an unwelcome 2.82 stake in the group.

The ICI war committee - led by the chairman Sir Denis Henderson with Mr Colin Short, finance director, and Mr Ronald Harpell, director responsible for acquisitions and divestments - held a series of meetings in London at the weekend with its advisers, the merchant bank SG Warburg and US finance house Goldman Sachs.

As Lord Hanson, chairman of Hanson, remains silent about his intentions, the ICI team is prepared for a takeover bid in the immediate future. But Sir Denis believes that is unlikely.

More probably, the ICI camp says, Lord Hanson and his advisers - the merchant bank NM Rothschild and securities house Smith Hew Court - will wait for several weeks or even months and assess all the political and financial reaction, before deciding on their next move.

They could make a full bid for ICI, sell the stake or propose some form of partial takeover or alliance between Hanson and the chemical group. Beyond making plain that ICI will counter-attack ferociously if Hanson makes an aggressive move, Sir Denis and his team refuse to spell out their plans.

"The other side is saying nothing and we want to keep our powder dry," said one insider.

A possible Hanson plan is not to take over ICI and break it up but instead to take a substantial stake in the chemical group - 20 per cent would be the minimum required for equity-accounting purposes.

Hanson would then want seats on the ICI board and an agreed strategy for stream-

lining the group and its management.

ICI and its advisers, meanwhile, continue to scrutinise Hanson and its operations, in the search for ammunition to counter-attack if necessary. They say they have had offers of assistance from many people who have had past dealings with Hanson.

ICI is likely to present itself in its defence documents as a company prepared to invest in research and development and to build up businesses for the long-term, as successful German and Japanese companies do. Hanson, in contrast, will be portrayed as an asset-stripper.

The eight trade unions representing ICI workers meet this afternoon to co-ordinate their political campaign against Hanson, under the auspices of the TUC.

The management for its part would not want its allies in the City to get the impression that it would be less tough than Continued on Page 18

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The past hangs over Ion Iliescu, president of Romania. His critics complain that he is unable to shed the mantle of his communist days. His advisers and the country's young ministers, however, are more sympathetic and loyal. Page 34

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### Tokyo Setback for talks on the US-Japan chip pact

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Turkey: The country's Kurds will in law be able to use their mother tongue - a first gesture towards this troubled minority. (Survey today, see separate section).



## INTERNATIONAL NEWS

## Comecon sets date for dissolution

THE SOVIET Union and its former communist allies will preside next month over the funeral of Comecon, the Soviet-led trade organisation, dead since January, Leyla Boulton reports from Moscow.

Mr Bela Kadar, Hungary's minister for international economic relations, said however that an agreement to dissolve Comecon on June 28 would not signify "the funeral of co-operation as such".

The nine remaining members of the Council for Mutual Economic Assistance (Comecon) switched to hard currency trade on January 1. East Germany, the 10th member, having been become part of a united Germany late last year. Justification for the existence of Comecon, which used to manage a centrally planned barter system, then disappeared.

However, it was only on Saturday that the nine - the Soviet Union, Poland, Bulgaria, Hungary, Czechoslovakia, Romania, Vietnam, Mongolia, and Cuba - set a time-table for

winding down the organisation created by Stalin 42 years ago.

Mr Kadar told a news conference the dissolution of Comecon would formally take effect 90 days after a treaty to this effect were signed by Comecon representatives in Budapest next month.

Meanwhile, the countries have to resolve a dispute over how to dispose of Comecon's property, which consists mainly of a skyscraper housing its Moscow secretariat and a hotel.

The Soviet Union would like to buy the headquarters, perhaps with a view to renting them for hard currency to western companies. The eastern Europeans, though, want to turn the secretariat into offices for their enterprises to do business in Moscow.

Member states are also still divided on a successor organisation for Comecon. Last year, they agreed to set up a loose consultative body to be called the Organisation for International Economic Co-operation. It would provide economic

forecasts and analysis on the difficulties of switching from a command to a market economy.

Now, however, Poland, Czechoslovakia, Hungary, Bulgaria and Romania want to exclude Mongolia, Vietnam and Cuba from the new club, while Moscow has wavered on the issue. The less-developed trio is seen as a drain on the European countries' resources with nothing to offer a new organisation.

These problems, however, are small in contrast to the separate task of reviving trade between the Soviet Union and the five eastern European countries. This collapsed with the switch to hard-currency trading in January, mainly because the Soviet Union continued to sell oil and gas to eastern Europe but had no hard currency left to import food and consumer goods traditionally supplied to it by eastern Europe.

Mr Stepan Sitarian, head of the Soviet Union's Foreign Economic Relations Commit-



Bela Kadar: co-operation will continue

tee, said moves were under way to raise imports from eastern Europe by restoring trade in national currencies and lifting Soviet restrictions on barter trade.

## Cypriot Greeks vote as Turks hold talks

By Kerin Hope in Nicosia

GREEK Cypriots voted yesterday to elect a new parliament, amid speculation over fresh Turkish proposals for reuniting the island.

The "national problem" of the Greek Cypriot community for the 17-year-old partition of the island, was the main issue in a low-key campaign that emphasised televised political debates rather than outdoor rallies.

President George Vassiliou, reflecting a consensus among local political leaders over recent US efforts to promote a solution under UN auspices, said that "only substantive proposals from the Turkish side" could revive negotiations. "The key to a solution is Ankara. It would be a great pity if Turkey doesn't respond to this positive international climate," he said.

UN officials, who sponsored years of fruitless discussion between the Greek and Turkish Cypriot communities, are holding direct talks with the Turkish Foreign Ministry.

Mr Rafi Denktash, the Turkish Cypriot leader, says he is under pressure to produce specific plans for territorial adjustments to let Greek Cypriots return to northern Cyprus, occupied by Turkish troops since 1974.

The right-wing Democratic Rally party was forecast to retain its position as the largest party in parliament, with more than a third of the vote.

Alkal, the flourishing communist party with a popular leader in Mr Demetris Christofias, has dropped its opposition to Cyprus's application for European Community membership. It was expected to move ahead of the centrist Diko party into second place.

## W Europe's car sales end decline

By Kevin Done, Motor Industry Correspondent

WESTERN European new car sales increased in April by an estimated 4.4 per cent to 1.3m from 1.2m a year ago, the first year-on-year increase since July last year.

For the first four months, sales in western Europe (including eastern Germany for 1991) were virtually unchanged at 4.92m, according to industry estimates.

The strengthening of demand in April reverses, at least temporarily, the downward trend established in mid-1990, which has severely depressed the profits of several car makers and has led to layoffs and reduced production.

The improvement in April, however, reflects chiefly the continuing dramatic surge in demand for new cars in Germany in the wake of unification, which is compensating for the sharp fall in sales in several other markets including in particular the UK, Spain and France.

There is concern in the industry that German demand could weaken in the second half of the year, as the initial car demand in eastern Germany is satisfied and as tax increases of many government, but the will of the people.

Excluding Germany, new car sales in western Europe, in the first four months, were 12.4 per cent lower than a year ago at 3.41m. Demand in some smaller markets also improved in April, however. Excluding Germany, sales last month were 5.9 per cent lower than a year ago at an estimated 867,000.

Overall new car sales last month were higher than a year ago in nine markets across western Europe and lower in eight. For the first four months, sales were lower in 13 markets, higher in four.

Germany remains the driving force behind western European new car demand and, last month, sales were an estimated 56.1 per cent higher at 483,000 (including eastern Germany), compared with sales of 277,000 a year ago in West Germany alone.

On the same basis, sales in Germany in the first four months were an estimated 47.4 per cent higher than a year ago at 1.5m.

The UK is still the volume market hit hardest by recession. Sales in April were 24.3 per cent lower than a year ago and 22.3 per cent lower in the first four months.

The slump in French car sales in the first quarter was moderated last month with an estimated drop of only 0.6 per cent, while sales for the first four months were 16.0 per cent lower than a year ago. The Fiat group of Italy has been the main loser this year with its western European new car sales declining by an estimated 12.3 per cent in the first four months and its share dropping to only 13.4 per cent from 15.3 per cent a year ago.

## Tough line on the krona

Robert Taylor assesses the Swedish decision to link its currency to movements by the Ecu

THE Swedish decision to link the krona to the European currency unit (Ecu) indicates the seriousness of the government's desire to become a member of the European Community.

Mr Allan Larsson, finance minister, made clear that the decision on Friday to link the krona to the Ecu would mean Sweden would like to join the exchange rate mechanism of the European monetary system "as soon as possible". He also wants Sweden to take a full part in the EC's discussions on economic and monetary union.

However, these wishes require the EC's agreement and it may be some time before Stockholm receives a satisfactory response. Even so, with Sweden's EC membership application due for delivery in Brussels by the end of next month, the pace of Sweden's integration to western Europe is quickening.

The link of the krona is a further sign of confidence that the ailing Swedish economy is on the road to recovery, without recourse to temporary palliatives such as a devaluation. In fact the krona's link to the Ecu appears to quash speculation that Sweden will manipulate the value of its currency - as it has in the past - to restore its competitive advantage.

The financial self-discipline imposed by Sweden over Ecu linkage - and eventually the ERM - will force future governments to pursue tough economic policies so as to ensure low inflation and monetary stability. Sweden has decided the krona will not be allowed to fluctuate by more than 1.5 per cent above or below SEK7.40064 to the Ecu.

Mr Larsson said in an interview: "We have taken this decision from a position of strength." He pointed to the substantial inflow of foreign capital to Sweden, the improvement in the balance of trade, and signs that the country's high inflation rate is at last declining. Consumer prices rose by only 0.5 per cent in April, bringing the year-on-year rate to 10.9 per cent.

Domestic interest rates are also expected to fall further this week, in another sign of an improved economic climate.

It is clear, too, that the Ecu decision will impose added pressure on employers to stand firm against those mainly white-collar workers who refuse to swallow a tight two-year national wage agreement, accepted by about 75 per cent of the workforce. It is designed to bring down the country's costs to the level of its main

trade competitors. The domestic reasons for the linking of Ecu linkage are clear enough. The present feverish state of public opinion points not only to the defeat of the ruling Social Democrats on September 16 but a fragmented parliament containing perhaps eight parties, making it hard for any government to take tough decisions.

With the prospect of political chaos, business confidence could have drained away. The fact the krona is now firmly wedded to the European currency system is expected to reassure markets that, whatever happens after the general election, the fundamentals of Swedish financial policy will remain unchanged.

The decision on Ecu linkage must also be viewed in the wider context of Sweden's bipartisan European strategy. It is, in Mr Larsson's words, the crown on the other moves that the Swedish government has made towards the EC.

Sweden believes the breakthrough last Monday in negotiations between the EC and the European Free Trade Association, on a European Economic Area, means a framework EEA agreement is now in sight and that loose ends over fishing and transit rights should not delay the timetable for the Swedish membership bid.



Croatian president Franjo Tudjman (left) and his compatriot Stipe Mesić, in line for the presidency of Yugoslavia, hail the weekend victory of Dinamo Zagreb over Red Star Belgrade, respectively the soccer pride of Croatia and Serbia

## Ethnic divisions in Croatia as republic votes on status

By Laura Silber in Vukovar, Croatia

VOTERS in Yugoslavia's republic of Croatia yesterday went to the polls to decide whether the territory wished to remain a part of Yugoslavia or become "a sovereign state", which may or may not become part of a Yugoslav "confederation".

The vote is widely seen as a referendum on independence and the Croatian government could regard the outcome as a mandate to leave the Yugoslav federation.

Mr Franjo Tudjman, president of Croatia, yesterday said: "We need the referendum to show the world that independence is not just the programme of my government, but the will of the people."

Most Croats were expected to vote for the sovereign state. However, many Serbs from the Croatian town of Vukovar, a town of Serbs and Croats, yesterday seemed to have voted in favour of keeping Croatia in

the present federation of six republics because they are concerned about their status in an independent Croatia.

Croatia's moves towards greater distance from the federal structures has led it into conflict with Serbia, the largest republic and still dominated by the communist party.

Serbia, which wants to retain Yugoslavia's present structures, last week prevented Mr Stipe Mesić, a Croat, taking his turn at the head of the country's eight-member presidency. The failure by Serbia to vote for Mr Mesić has meant that Yugoslavia has been without a federal president and head of the armed forces.

This led Mr Ante Markovic, federal prime minister, to form last Friday a "committee" which would guarantee the functioning of federal institutions, in an attempt to bypass the paralysis. The army issued a statement on Saturday, after

an emergency session of military leaders, in which it warned that "special measures would be taken" in the light of the deadlock. It did not go into detail.

Meanwhile, the disputes at the federal level have reached Vukovar, with its population of 30,000 people, whose voters are now concerned about the possibility of civil war. They were doubtful yesterday that the referendum would resolve the country's deepening crisis. "It would be better if Croatia could fully secede. We are on Serbia's frontier, where brother will have to shoot against brother," said a Croatian woman after voting.

There were no reports of violence between Serbs and Croats but police armed with AK-47 machine guns guarded some polling stations while heavily armed police from Croatia's special forces occupied the town's hotel.

## WEST EUROPEAN NEW CAR REGISTRATIONS\*

January-April 1991

	Volume (Units)	Change (%)	Share (%) Jan-Apr 91	Share (%) Jan-Apr 90
<b>TOTAL MARKET*</b>	4,921,000	+0.0	100.0	100.0
<b>MANUFACTURERS:</b>				
Volkswagen (incl. Audi & SEAT)	617,000	+10.9	16.8	15.0
Fiat (incl. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati)	659,000	-12.2	13.4	15.3
General Motors (Opel/Vauxhall, USG & Saab)	620,000	+9.3	12.6	11.5
Opel/Vauxhall	598,000	+10.3	12.2	11.0
Saab	17,000	-22.0	0.3	0.4
Ford (Europe, USG & Jaguar)	602,000	+7.8	12.2	11.3
Ford Europe	594,000	+8.3	12.1	11.2
Jaguar	5,000	-32.6	0.1	0.2
Peugeot (incl. Citroën)	577,000	-10.4	11.7	13.1
Renault	487,000	-4.5	9.9	10.4
Mercedes-Benz	189,000	+4.2	3.8	3.2
Nissan	151,000	+12.1	3.0	2.7
BMW	133,000	-1.6	2.7	2.7
Rover	191,000	-8.4	3.9	2.5
Toyota	125,000	+2.5	2.5	2.0
Mazda	101,000	+4.6	2.0	2.0
Volvant	76,000	-18.0	1.5	1.9
Mitsubishi	63,000	+3.5	1.3	1.2
Honda	55,000	+3.3	1.1	1.1
<b>Total Japanese</b>	368,000	+5.6	7.4	10.9
<b>MARKETS:</b>				
Germany*	1,510,000	+47.4	30.7	20.1
Italy	504,000	-3.2	10.2	19.0
France	705,000	-16.0	14.3	17.1
United Kingdom	583,000	-22.2	11.8	15.2
Spain	287,000	-19.7	5.8	7.3

\*Includes eastern Germany in 1991.  
\*Cars imported from US and sold in western Europe.  
\*All data in per cent and management control of Saab Automobile.  
\*Honda holds a 50 per cent stake in Rover vehicle operations.  
\*Renault and Volvo are linked through minority cross-shareholdings.  
Source: Industry estimates

## German car danger

THE absorption of the eastern states threatens to damage Germany's good reputation in pollution control, says a report on new traffic patterns in east Germany, writes David Goodhart in Berlin.

The report predicts a 26 per cent increase in carbon dioxide emissions in Germany, thanks to a sharp rise in the number and use of cars in the east.

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## Polls forecast Gonzalez losing ground

OPINION polls published yesterday forecast that Spanish prime minister Mr Felipe Gonzalez's Socialist Workers' Party (PSOE) will lose ground when 30 million Spaniards vote in local elections all over the country next Sunday, Renter reports from Madrid.

El Pais newspaper carried a poll which saw the two biggest opposition parties, the conservative Popular Party (PP) and the United Left coalition (IU), both closing the gap with the PSOE. The Social and Democratic Centre (CDS) lost support in the poll.

Voters will choose candidates for 6,000 town halls and the governments in 13 of Spain's 17 autonomous regions. El Mundo newspaper said that unless the Socialists make a pact with other parties, the PP should clean up in Madrid, where they have ruled with the CDS in coalition since 1989.

## Soviet air traffic controllers may strike over pay dispute

THE Soviet government has met most demands by air traffic controllers, but their strike could still go ahead because of differences over pay, a trade union leader said on yesterday, Renter reports from Moscow.

Mr Sergei Yevsukov, vice-president of the controllers' union, said the government had made key concessions on pensions, retirement age and holidays following talks to avert the strike, which was to begin tomorrow.

But government negotiators were flatly refusing to bow to demands for a three-fold increase in pay, he added.

"We are receiving calls from throughout the country from local trade union committees and they say we should hold out until the very end, and not sign any agreement until all our demands are met in full," Mr Yevsukov said in a phone

interview. He said it was not up to his negotiating team to proceed with the strike but "to implement the will of the people".

Civil aviation minister Mr Boris Panyukov told the Communist Party daily Pravda on Saturday that the strike, which would close Soviet airspace, was illegal.

The authorities were prepared to take stern measures to prevent it, he said. Each day of a walkout would cost the economy 25 million rubles (\$42m at the inflated official exchange rate) and \$2m in convertible currency.

Soviet pilots have pledged to stage a one-day strike to press similar demands. Senior parliamentary official Mr Valery Voskoboinikov told Soviet television yesterday that the government had

agreed to reduce the retirement age of air crew and traffic controllers to 50 for men and 45 for women and extend annual leave to 50 days or more.

But he said government ministers were not prepared to grant a pay increase exceeding 50 per cent.

Controllers complain that their monthly wage of 400 rubles - over 50 per cent higher than average Soviet salaries - does not reflect the stress and danger of the job.

Union leaders estimated last week that 90 per cent of their estimated 17,000 members were prepared to join the walkout.

A strike would hit Western airlines flying to the Far East because the most direct routes from Europe to Tokyo, Hong Kong and other cities in the region cut directly across Siberia.

## Extracts from the unaudited consolidated results of Rand Mines Limited and its subsidiaries for the six months ended 31 March 1991

	Six months ended		
	31 March 1991	31 March 1990	Change %
	Rm	Rm	
<b>Turnover</b>	856.6	755.5	+ 13
<b>Profit before taxation</b>	154.1	147.8	+ 4
<b>Profit attributable to shareholders</b>	104.3	96.6	+ 8
<b>Earnings per share*</b>	700c	714c	- 2
*Calculated on the weighted average number of shares in issue (000s)			
<b>Dividend per share</b>	100c	120c	- 17
<b>Extraordinary income/(charges) attributable to shareholders not included above:</b>			
Compensation paid on cancellation of contract	(6.3)	-	
Goodwill	-	(8.6)	
Provision against mining assets	(3.0)	-	
Surplus on sale of - investment in managed gold mines	6.1	21.1	
- fixed property	0.3	-	

	31 March 1991	30 Sept. 1990
<b>Total assets (Rm)</b>	3 972.2	3 721.4
<b>Net asset value per share (rand)</b>	95	102
<b>Total liabilities to equity (%)</b>	78	76
<b>Debt to equity (%)</b>	56	53
<b>Current ratio</b>	0.8	1.0
<b>Interest cover (times)</b>	2.1	2.6

## NOTES:

Comparative figures have been restated for the year ended 30 September 1990 to give effect to the following changes in accounting policies adopted with effect from 1 October 1990:

- Assets currently amortised by subsidiaries on a "life-of-mine" basis are amortised over the estimated economic life of the individual assets. Provisions for replacements have been written back to retained earnings.
- All consumable stores are valued on a first-in first-out basis.

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## INTERNATIONAL NEWS

# Kirkuk dispute delaying Iraqi autonomy deal with Kurds

By Tony Walker in Cairo and John Murray Brown in Silopi

KURDISH rebel chiefs said at the weekend they had reached broad agreement with Baghdad on autonomy for their people in the north of Iraq.

However, the signing of an autonomy agreement is being held up by a lingering dispute over Kirkuk, at the centre of Iraq's main oil-producing region, and included in a new autonomous region.

The paramount Kurdish guerrilla chief, Mr Masoud Barzani, said he hoped a document would be ready for signature within days to put a formal end to 20 years of fighting between the Kurds and the central government.

"The main point which we are still negotiating is about the area of autonomy. There are different views," Mr Barzani said on Saturday.

Mr Barzani, at the head of an alliance of Kurdish groups, is seeking implementation of a 1970 agreement that promised Kurds a large measure of autonomy in northern Iraq, but did not extend to Kirkuk itself.

The 1970 agreement quickly collapsed amid Kurdish allegations that Baghdad had reneged on its promises. The past two decades have been marked by bitter conflict.

In London, Kurdish opposition groups expressed great scepticism about the autonomy deal, saying that as long as President Saddam Hussein remained in power there was little chance of lasting peace.

"Democracy is something impossible in Iraq under Saddam Hussein," said Mr Munzir Khalil, president of the Kurdish human rights organisation.

Meanwhile, the first contingent of United Nations security guards was deployed in north Iraq yesterday as part of the mounting operation to coax Kurdish refugees off the mountain peaks to their homes. A team of 10 UN officials entered

the city of Dohuk, the first of 400-500 UN guards to be mobilised to provide the security for the thousands of refugees returning to their homes in north Iraq.

Dohuk, a provincial capital just outside the allied security zone, is vital to the success of the relief plan. More than 200,000 of the refugees come from the city.

A continued Iraqi military presence has so far prevented refugees from returning. A US assessment team, comprising medical and disaster-response experts, was to have entered Dohuk yesterday but was refused permission by the Iraqi forces still occupying the town.

An autonomy agreement between Baghdad and the Kurds would pave the way for the return of the refugees to all northern villages and cities, including Kirkuk, now under Iraqi government control.

Mr Barzani confirmed that the Kurdistan Front was ready to leave control of the Kirkuk area's oil in the hands of the central government in return for Kurdish administration of the city.

"We want to reach concrete agreement on this matter, a radical solution if possible, and end this feud, which has lasted too long for the Kurdish people and for the Iraqi people as a whole," he said.

A quarter of Iraq's pre-war oil production of 3.2m barrels a day came from fields around Kirkuk. The Kurds have said they want a share of the state budget equal to their population - about 20 per cent of Iraq's 18m people.

Mr Barzani, who has held two meetings with Mr Saddam since he arrived in Baghdad on May 7, told reporters he was willing to deal with the Iraqi leader because "both of us have now got very strong experience that war is not the solution to this matter."

# Syrians insist that Lebanon enjoys independence

Damascus' hegemony over the strife-torn country may be the lesser of two evils, writes Lara Marlowe

DESPITE Israeli claims that last week's Beirut-Damascus treaty marks the virtual annexation of Lebanon by Syria, officials in Damascus are publicising the agreement as the first formal recognition by Syria of Lebanese independence.

"For the first time, Lebanon has been acknowledged by law as an independent state in its present borders," Mr Mohammad Salameh, the Syrian minister of information, said yesterday. "No Syrian government ever said officially, 'Lebanon is a separate state.' In this treaty, Lebanon is recognised as an independent state; it is a new departure for the Syrian government to officially acknowledge this."

The treaty does not mean the unification of Syria and Lebanon. It does not mean identical laws in the two countries. Both countries retain their own constitutions.

Fears for its own security have always been central to Syria's intervention in Lebanon. "The French and British colonialists came to Syria through Lebanon," Mr Salameh said. "Throughout history, anyone who wanted to threaten Syria came through Lebanon. Israel tried to dominate Lebanon, and in doing so they were above all targeting Syria. They tried to place a pro-Israeli president in power and forced the May 17 1983,

agreement on the Lebanese. The items of this treaty have been sought out as a result of events in Lebanon, which made both the Syrian and Lebanese people suffer."

The new Syrian-Lebanese treaty states clearly: "Lebanon may not be the source of aggression against Syria."

Syrian and Lebanese officials have portrayed the treaty as an extension of the October 1989 Taif peace accord. The Taif agreement required Syria's 40,000 troops in Lebanon to withdraw to east of Beirut six months after the dissolution of the militias and the completion of political reforms - conditions which the present, pro-Syrian Lebanese government claims are not yet fulfilled.

Two years after this redeployment, the presence of Syrian troops was to have been the subject of negotiations

between the Lebanese and Syrian governments. The new treaty leaves the matter to a "higher council" comprising Syrian President Hafez al-Assad, Lebanese President Elias Hrawi and their deputies.

The prospect of a complete Syrian withdrawal from Lebanon, therefore, appears distant. Syria has always maintained it would not withdraw from Lebanon while Israeli troops continue to occupy the south of the country.

The treaty, due to be ratified by the Syrian and Lebanese parliaments this week and formally proclaimed by the two presidents on May 25, calls on the two governments to "co-ordinate their economic, agricultural, industrial, commercial, transport, communications, and customs sectors, undertake joint projects and co-ordinate their development plans."

Syrian officials insist the treaty will benefit both countries. But with Lebanon just beginning to recover from its civil war, Lebanese businessmen - who enjoy banking secrecy and the absence of exchange controls - are cringing at the possibility that Syrian-style "dirigisme" could paralyse their own economy.

For many Lebanese, the treaty merely represents the expression in concrete terms of the state of affairs dating from October 13 1990. On that day, Syrian aircraft bombed the presidential palace at Baabda, forcing Christian Lebanese general Michel Aoun to flee to the French ambassador's residence; 810 Syrian soldiers died in the ground assault, which brought Syrian troops to Christian East Beirut.

Two months later, President Hrawi announced the forma-

tion of a predominantly pro-Syrian cabinet. French and Vatican opposition to Syrian intervention in Lebanon had been all but neutralised by the intercommunal Christian war of 1990. Christian objections to the treaty have been noteworthy for their timidity.

Thus, the treaty marks Syria's triumph over the francophone, Maronite Catholics of Mount Lebanon, who allied themselves with Israel in the 1970s and 1980s. Maronites outside the Christian enclave have rarely opposed Syria. It was Suleiman Frangieh, a Maronite president from Northern Lebanon, who invited Syrian troops into Lebanon in 1976.

President Hrawi, a Maronite from the Bekaa Valley town of Zahle, has met President Assad 12 times since his election in November 1989. Without Syrian military support, he would

still be ruling Lebanon from the Bekaa Valley, where he waited for 11 months for Syria to end the "Aoun mutiny".

The once-powerful Phalange militia has been disarmed under the terms of the Taif peace accord and the Phalange appear to be biding their time in hopes that the US support for Syrian policies in Lebanon may change.

Last year, when Syria joined the coalition against Iraq, the US gave its tacit approval for Syria to drive Gen Aoun out of Baabda. Having despaired of Lebanon after the bombing of the US marine base in Beirut in 1983, the US government apparently made the same cold calculation which has led many Lebanese leaders to side with Syria: during 15 years of civil war, the Lebanese could not manage to reconcile their differences. If Syrian hegemony could restore order to Lebanon, that was the lesser of evils.

Above all, the treaty constitutes Syria's revenge against history. Syrians still insist that the people of Syria and Lebanon are one, artificially separated by the French mandate powers. Unlike Iraq's annexation of Kuwait, Syria now seems willing to accept, in the words of Mr Salameh, "the existence of one people in two countries."

## ASSAD DEMANDS IMPLEMENTATION OF UN RESOLUTIONS

President Hafez al-Assad of Syria repeated his insistence at the weekend that a Middle East peace settlement be based on key UN Security Council resolutions requiring Israel to withdraw from land seized in the 1967 war, writes Tony Walker in Cairo.

In a rare public comment on faltering US peace efforts, Mr Assad accused Israel of blocking progress, and said the UN should be involved in any attempt to resolve the Arab-Israeli dispute. "There is no escape from the implementation of the

UN resolutions and the respect for international legitimacy," he told reporters at the end of a visit by Egyptian President Hosni Mubarak.

Israel has rejected UN participation in a proposed regional peace conference, accusing the world body of bias. It has also said repeatedly that it would not yield one inch of territory occupied in 1967.

Syria insists on a "significant" UN role to emphasise the importance of the Security Council resolutions 242 and 338.

Mr Mubarak said after meeting President François Mitterrand at the weekend that France supported the view that any peace conference would have to be guided by the resolutions.

Mr James Baker, the US secretary of state, returned late last week to Washington from his fourth peace shuttle to the Middle East since the end of the Gulf war. The US is considering various options, including simply summoning parties to the dispute to a peace gathering.

## NEWS IN BRIEF

### Polish miners agree to return to work

SOME 20,000 Polish striking copper ore miners agreed to return to work at the weekend after a six-day stoppage in the Lubin area in the south-west, writes Christopher Bohinski in Warsaw.

This will bring relief to the government of Mr Jan Krzysztof Bielecki, who was elected as one of the leaders of the 3,000-strong Liberal Democratic party at the group's second congress in Warsaw at the weekend.

Details have yet to emerge on what terms the miners agreed to return to work.

### HK airport talks continue

Britain and China last night completed the second of five days of talks on Hong Kong's plans for a HK\$100bn (£7.5bn) international airport. The talks centre on how much control China should have over this and other big decisions before it takes Hong Kong back in 1997, writes John Elliott in Hong Kong.

Mr Andrew Burns, the senior diplomat from London leading the British side, said at the end of a 54-hour session yesterday the talks had been "good, serious and earnest". Earlier talks were adjourned five weeks ago when the two sides failed to reach a compromise that would separate the airport from China's broader demands for at least partial control.

### Northern Somalia secedes

Northern Somalia declared at the weekend its independence from the rest of the war-shattered country, writes Julian Osanne in Kampala.

The secession of northern Somalia, now to be known as the Somaliland Republic, is a sign of how deeply Somalia has disintegrated after years of oppressive, undemocratic and centralised government which provoked an inevitable clan-based civil war.

Mr Abdirahman Ahmed Ali is to be the first president of the new republic.

### Woman minister for Pakistan

Pakistan's government appointed its first woman minister over the weekend, in a move widely seen as a symbolic gesture to offset recent criticism of Islamic laws and their implications for women. Asghar Bekhad in Islamabad.

Mrs Akhla Hameed, an experienced politician, was appointed as an adviser on population welfare to Prime Minister Nawaz Sharif, with the status of a full minister.

At least five people were killed and 16 wounded by gunmen and police yesterday as a nationalist group called for a protest strike in Sindh province, witnesses said, Reuters reports.

### Taiwan official to visit Moscow

Taiwan's Vice-Economics Minister Chiang Pin-Kung will visit the Soviet Union this month, becoming the most senior Taiwan official to visit Moscow publicly, a ministry spokesman said yesterday. Reuters reports from Taipei.

Chiang, leading a delegation of about 60 economic officials and industrialists, left on Saturday on a 20-day trip that will also include visits to Poland, Czechoslovakia, Bulgaria and Hungary.

### Taipei to lift gold curbs

Taiwan, one of the world's biggest gold buyers, will soon lift curbs on exports and imports of the metal, a leading economic newspaper said yesterday. Reuters reports from Taipei.

The cabinet will shortly lift a long-standing ban on gold exports and allow it to be imported freely instead of through a licensing system, said the Economic Daily News, quoting unnamed senior officials in the finance ministry.

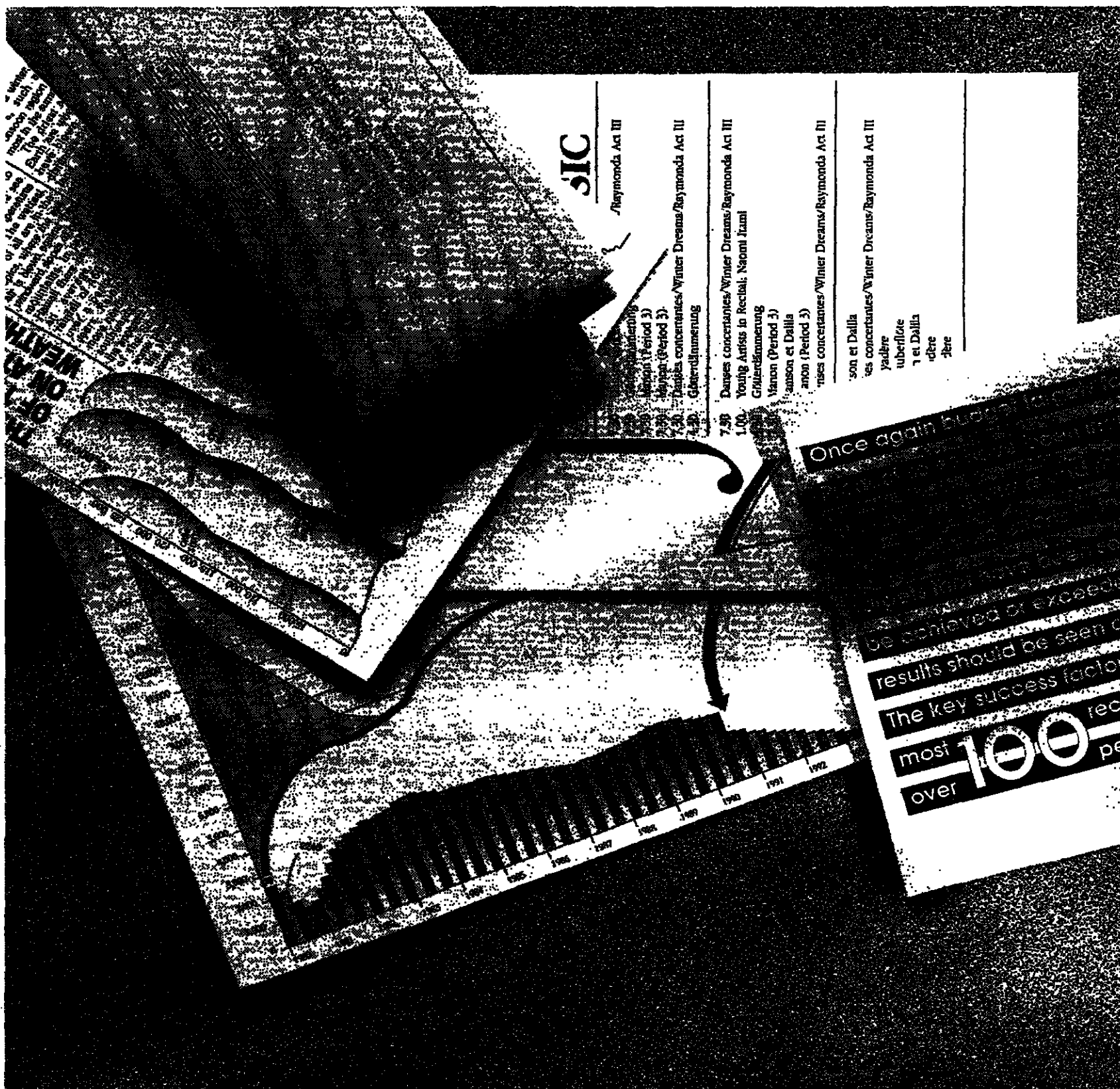
Taiwan imported 103.73 tonnes of gold last year and briefly replaced Japan as the world's biggest buyer in 1989 when it bought 354.85 tonnes.

### Li Peng defends Tibet line

China's hardline premier, Li Peng, defended China's policies in Tibet yesterday and accused unnamed foreign forces of fabricating tales of human rights abuses in the remote Himalayan region, Reuters reports from Peking.

The premier also lashed out at Tibet's exiled spiritual leader the Dalai Lama, attacking him for supporting Tibetan independence, though he said negotiation was still possible.

## The best output at hand.



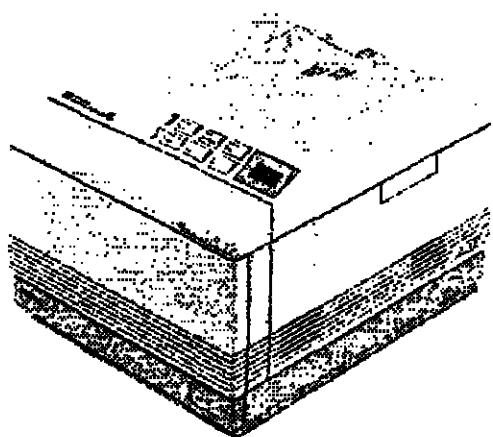
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## INTERNATIONAL NEWS

Shortfall for 1991 may be less than \$300bn, but still a record

## Darman expects smaller US budget deficit

By Peter Riddell, US Editor, in Washington

THE US budget deficit may, for once, turn out to be less than expected in the current fiscal year in spite of lower tax receipts resulting from the recession.

However, some of the shortfall may be a result of temporary influences which will inflate next year's deficit. Mr Richard Darman, the budget director, said yesterday that, although the administration last January had projected a federal budget deficit of \$318bn (\$184bn) for the fiscal year ending on September 30, 1991, the total was now likely to be less than \$300bn. He did not give any reasons.

The Congressional Budget Office also expects the deficit to be well below the January projections, while pointing to temporary reasons such as the large foreign contributions to US costs during the Gulf war and delays in providing additional funding for the savings and loan rescue.

The Resolution Trust Corporation, handling the rescue, did not receive needed funding until just over two months ago, so delaying some takeovers and closures. Its expenditure may be \$20bn less than the \$11bn expected last January, but much of that may now be incurred in fiscal 1992.

Moreover, even a lower-than-expected federal deficit - estimated by some private sector analysts at no more than

\$280bn - would still be a record and much higher than the \$204.4bn total for fiscal 1990.

Nevertheless, last autumn's budget agreement has succeeded in constraining spending plans despite the pressures of the recession. These tight guidelines have been recently reaffirmed by Congress.

Mr Darman said yesterday he thought the US economy was "in the process of turning" and "about to be headed up".

He also praised Mr Alan Greenspan, chairman of the Federal Reserve, whose four-year term expires on August 11. While declining to say whether he could recommend re-appointment, Mr Darman said the Fed chairman was "widely, and rightly, respected" and had his full confidence even though they did not always agree (on monetary policy). The general expectation in Washington is that Mr Greenspan will be re-appointed.

The White House is expected soon to announce the naming of Ms Susan Phillips to fill the vacancy on the Federal Reserve Board following the resignation in March of Ms Martha Seger as one of the Washington-based governors. Phillips is professor of finance at the University of Iowa and a former chairman of the Commodity Futures Trading Commission.

## Setback for talks on US-Japan chip pact

By Robert Thomson in Tokyo

US AND Japanese trade officials failed to settle their differences during talks at the weekend over a new pact on foreign access to Japan's semiconductor market.

The deadlock is certain to be raised at meetings in Tokyo this week between Mr Dan Quayle, US vice-president, and Japanese leaders, who had hoped a pact would be concluded quickly to minimise friction with Washington.

The new agreement would replace a five-year pact due to expire in July. The issue has become more politically charged in recent days following allegations by a prominent US senator that Japanese chip equipment producers have refused to sell advanced technology to US chip makers.

Negotiations have stalled on three issues: the wording of a market share target of 20 per cent for foreign chips; lifting of dumping sanctions

already imposed on Japanese companies; and measures to prevent semiconductor dumping in third countries.

US officials have argued for tougher provisions against dumping in third countries, where low-cost chips could be used by appliance makers who would then export their products to the US.

Thus the dumping issue is settled the US is unlikely to offer to lift sanctions imposed in 1987 after Washington determined that Tokyo had failed to honour the original agreement.

As for the market share target, US negotiators would like the wording to be precise, although they do not want the agreement to be seen as an example of managed trade. Japanese officials want the provision to be as vague as possible, fearing it could set a precedent for other market share pacts.

## Couriers evoke reformist spirit in postal crusade

Delivery companies draw inspiration from history in their fight for liberalisation, writes Roland Rudd

LET THE government then, take the matter in hand; let them subject these proposals to the severest scrutiny; let them proceed with boldness which the present state of affairs justifies and requires.

The clarion call for change made in 1837 by Rowland Hill, father of Britain's postal service, is being echoed in Brussels today by private courier companies urging radical reform of postal services throughout the European Community.

When Hill issued his call he was on the verge of a spectacular success. But only weeks before the European Commission is due to publish its long-awaited green paper on liberalising postal services, the couriers are no longer so confident of matching Hill's historic achievements.

The stakes are high for groups such as the European Express of the US, the international courier DHL, and the Australian-based delivery company TNT. They have spent millions of pounds to set up pan-European distribution networks; failure to secure liberalisation would end their hopes of capturing the increased business volume needed to earn a return on investment.

The European Express Organisation (EEO), an association of European private delivery services, says Hill's reforms were not dependent on the existence of a postal monopoly. If the Community wants to best serve the consumer, the EEO says, then it should not be irrevocably tied to

postal monopolies. "The needs of those who use and depend on delivery services should be paramount - not the apparatus in Brussels," one member said.

In a submission to the Commission, the organisation argues that liberalisation of postal services would lead to highly competitive private express and parcel delivery services. There is some evidence to support this: in the more liberalised US, postal traffic grew 45 per cent from 1981 to 1988 and there is a postal service to every address in the country.

A few European post offices believe more competition is no bad thing. Britain and the Netherlands have already made changes ahead of the EC's green paper, expected next month.

The Royal Mail is proposing to allow private couriers to use part of its service for the final delivery of letters in areas which they do not cover, such as remote villages. The Netherlands is trying to prise business away from more conservative countries by offering lower charges for bulk mail from the rest of Europe to destinations outside the EC.

However, most post offices, which together employ 1.25m people, are fighting to preserve the status quo. They fear wholesale reform threatens the continuation of a universal postal system guaranteeing regular deliveries to EC citizens in the outposts of the Community. Stripped of their monopoly rights in the more densely



populated areas, the post offices warn they could not afford to maintain services in remote regions.

Even advocates of reform - such as Dr Robert Albion, a senior lecturer in economics at the Australian National University who is visiting the University of Birmingham - agree competition could adversely affect rural services by raising prices. In a report for Aims for Industry, the UK industrial pressure group, he says urban households would benefit at the expense of rural ones.

The battle between the private couriers and national post offices is reflected within the Commission. Its telecommunications directorate, which is formally in charge of the green paper, is supporting the

national post offices' main arguments against wholesale liberalisation. The competition directorate wants, unsurprisingly, more competition. The result seems likely to be compromise.

The Commission's green paper is expected to require post offices to give up anti-competitive cross-subsidies: if a post office props up its parcel division, for example, by using revenue from its letters monopoly, it is clearly frustrating competition within that business by charging artificially low prices. The Commission appears to have accepted arguments by some private operators that post office rules on cross-subsidy violate EC competition laws.

In the past the Commission has not been afraid to tackle national post offices' anti-competitive measures by forcing member states such as Italy to lift restrictions on international couriers. SFEI, the French private courier association, has complained that indirect subsidies of more than \$150m from monopoly revenues have been given to Chronopost, its semi-state rival. The Commission should address that problem by preventing the most obvious forms of cross-funding.

The Commission also appears to have sided with private courier companies over their demands for a more liberal postal service within the Community. It is expected to argue that the system of charging between national postal administrations for delivering each other's mail, known as terminal dues, should be reformed

to reflect true costs.

But that is where agreement ends. Although the Commission says it has clarified its draft report to emphasise the importance of competition, the telecommunications directorate has issued the final version: it will reject calls for total liberalisation. As one EC official put it: "We are not in the business of allowing a private courier firm to cream-off the most lucrative areas in the community."

Mr Michael Davy, an EEO spokesman, still believes the competition directorate will not stand for a European letters monopoly, whether by price or weight. However, the directorate appears to have accepted that universal service should remain a central principle of the EC postal system. That suggests Brussels will endorse continued monopolies for letters and printed papers to cover the fixed costs of the network.

The DHL-led Association of European Express Carriers will accept a minimum service available to all countries as long as value-added services are open to competition. The EEO may also be able to live with that.

But anything less will ensure the battle over Europe's postal services continues. In the words of a senior executive of one private courier service: "Rowland Hill had to fight long and hard to change Britain's postal services. We are determined to do the same to reform the postal system in Europe."



Summit in Caracas: from left, presidents Rodrigo Borja Cevallos of Ecuador, Jaime Paz Zamora of Bolivia, Carlos Andrés Pérez of Venezuela, César Gaviria of Colombia and Alberto Fujimori of Peru

## Andean leaders breathe fresh life into regional pact

By Joe Mann in Caracas

THE presidents of five South American nations, meeting in Caracas over the weekend, signed an accord designed to implement fully an Andean regional free trade zone by the end of 1995.

The agreement calls for a progressive reduction of tariffs and other barriers to regional trade, as well as the elimination of commercial protectionism that have plagued the process of Andean regional integration for years.

The presidents of Bolivia, Colombia, Ecuador, Peru and Venezuela, whose nations make up the Andean Pact (or Andean Common Market), also agreed to begin negotiating as a block with the US to take advantage of President George Bush's "Enterprise for the Americas" initiative.

In addition, the group said it would set up a \$40m (\$23.1m) fund to aid Peru.

The Andean nations' actions represent a timely response to direct negotiations between Mexico and the US on establishment of a free trade zone, and to the recent organisation of the Southern Common Market, made up of Argentina, Brazil, Paraguay and Uruguay.

The Andean Pact, set up in 1973, has wasted many years through disputes among members and bureaucratic lethargy.

Until a few years ago the pact also committed the area to imposing a restrictive code on foreign investment.

Mr Carlos Andrés Pérez, Venezuelan president, said at a news conference following the summit that Andean integration would establish a market of between 90m and 100m people.

## Ethiopian guerrillas step up offensive

By Julian O'Connell in Kampala

ETHIOPIAN rebels claimed yesterday to have dealt their most devastating military blow to the embattled regime of President Mengistu Haile Mariam, advancing to within 90km of the capital, cutting off a strategic road and seizing three key towns.

The latest setback for the embattled regime in Addis Ababa, confirmed by western diplomats, comes eight days before peace talks are due to open in London, which observers say could represent the last chance to prevent a bloody battle for the capital.

The rebel advances over the weekend are a clear attempt to tighten the screws on the government and force them into greater compromises at the talks.

The Ethiopian People's Revolutionary Democratic Front said it had retaken Amba and advanced 15km further along the road to Addis Ababa. It also claims to have overrun an estimated 30,000 government troops at Dessie, the provincial capital of Wollo, and Kombolcha, surrounded thousands of troops at Debre Sina and taken 150km of the capital from the last government-held Red Sea port of Assam.

Fierce fighting was reported to be continuing in the area around the towns. Independent confirmation of the capture of Amba was not available.

With rebel forces advancing from the west and

north against demoralised government troops, observers say an end to Mr Mengistu's 14-year dictatorship is imminent. If the rebels have indeed cut the Assam road the most important source of fuel, food and other supplies to the capital has been severed.

There are mounting fears for millions of Ethiopians fleeing starvation this year. Dessie and Kombolcha were strategic forward bases set up for operations mounted by the United Nations and aid agencies to store and transport food across the battle lines into northern Wollo and the highlands of Tigray and Eritrea.

Several hundred aid workers and many trucks are trapped behind the new battle lines and at least one warehouse is believed to have been destroyed in the fighting.

The peace talks in London next week, under US auspices, provide the only hope that a huge human catastrophe can be averted. Both main rebel groups, the EPRDF and the Eritrean People's Liberation Front, have recently indicated a willingness to end the military struggle and participate in a broad-based interim administration paving the way for internationally monitored democratic elections.

The government has also shown some willingness to moderate its position but there is uncertainty as to whether it is committed to sharing power.

## INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

■ UNITED STATES						■ JAPAN						■ GERMANY						■ FRANCE						■ ITALY						■ UNITED KINGDOM					
Exports	Imports	Current balance	Ex. change rate	Effective exchange rate		Exports	Imports	Current balance	Ex. change rate	Effective exchange rate		Exports	Imports	Current balance	Ex. change rate	Effective exchange rate		Exports	Imports	Current balance	Ex. change rate	Effective exchange rate		Exports	Imports	Current balance	Ex. change rate	Effective exchange rate		Exports	Imports	Current balance	Ex. change rate	Effective exchange rate	
1984	275.8	-136.8	-125.5	0.7991	96.9	213.8	56.7	44.1	187.03	97.9	218.3	24.2	12.5	2.2387	100.0	123.7	-3.6	-1.1	6.8715	99.1	93.4	-13.9	-5.2	1381.5	106.9	118.9	-9.0	-3.1	0.6908	100.6	123.9	-10.0	-3.1	0.6908	100.6
1985	279.8	-174.2	-180.5	0.7823	100.0	230.8	76.0	64.5	180.50	100.0	242.8	33.3	21.7	2.2259	100.0	133.4	-4.5	-0.2	6.7941	100.0	103.7	-18.0	-5.4	1443.0	100.0	132.4	-5.7	-0.7	0.5891	101.0	132.4	-5.7	-0.7	0.5891	101.0
1986	230.9	-140.8	-147.8	0.9896	90.2	211.1	98.2	86.8	185.11	124.4	248.8	59.5	40.3	2.1279	108.8	127.1	-0.1	0.0	6.7941	102.8	98.4	-2.5	-1.4	1461.8	101.4	108.3	-14.1	-0.1	0.6708	95.5	108.3	-14.1	-0.1	0.6708	95.5
1987	229.2	-151.9	-161.4	1.1541	70.3	201.8	86.1	75.2	189.38	133.2	254.2	62.7	39.8	2.0772	116.5	128.3	-4.5	-3.6	6.8287	103.0	100.7	-7.5	-2.1	1484.3	101.2	112.7	-15.9	-6.1	0.7047	90.1	112.7	-15.9	-6.1	0.7047	90.1
1988	272.5	-100.2	-108.9	1.1833	98.0	219.8	97.7	62.5	151.51	147.3	272.5	61.7	42.8	2.0728	114.8	141.5	-4.8	-3.4	7.0354	104.8	108.3	-9.9	-8.0	1538.3	97.9	121.6	-31.7	-23.4	0.6848	98.5	121.6	-31.7	-23.4	0.6848	98.5
1989	330.2	-99.3	-96.9	1.1017	98.4	245.4	70.3	62.3	151.87	141.9	310.2	65.3	52.0	2.0681	113.5	182.9	-6.4	-3.6	7.0169	99.8	127.8	-11.3	-17.0	1609.2	98.6	138.0	-26.7	-26.6	0.6728	92.6	138.0	-26.7	-26.6	0.6728	92.6
1990	309.5	-78.8	-77.9	1.2745	95.1	218.6	50.0	28.4	183.94	126.0	304.2	51.5	37.7	2.0537	119.1	170.3	-7.2	-4.5	6.8202	104.8	133.7	-11.2	-24.0	1633.2	100.8	143.7	-20.0	-17.9	0.7150	91.8	143.7	-20.0	-17.9	0.7150	91.8
2nd qtr.1990	81.0	-16.7	-18.2	1.2223	97.8	58.7	11.1	6.5	186.78	119.6	77.8	14.2	6.9	2.0507	118.7	42.1	-1.8	-1.8	6.8968	104.7	35.4	-3.4	-5.1	1506.1	101.4	35.4	-2.2	-4.5	0.7300	96.5	35.4	-2.2	-4.5	0.7300	96.5
3rd qtr.1990	74.7	-21.7	-20.4	1.2390	94.1	54.3	12.7	5.4	186.35	123.7	82.1	12.7	7.2	2.0747	118.6	42.1	-2.4	-2.4	6.8943	104.9	31.2	0.2	-1.9	1527.7	100.7	36.7	-4.4	-3.5	0.6978	94.2	36.7	-4.4	-3.5	0.6978	94.2
4th qtr.1990	74.7	-19.1	-20.2	1.3714	90.8	55.2	12.5	4.5	179.38	133.8	82.5	7.2	6.2	2.0589	120.0	42.2	-2.4	-1.1	6.9400	105.6	36.8	-2.0	-0.8	1547.5	99.8	36.8	-4.2	-1.2	0.7050	94.1	36.8	-4.2	-1.2	0.7050	94.1
1st qtr.1991	82.4	-16.7	-16.7	1.2745	95.1	58.2	16.9	15.3	179.38	132.1	82.5	7.2	6.2	2.0589	120.0	42.2	-2.4	-1.1	6.9400	105.6	36.8	-2.0	-0.8	1547.5	99.8	36.8	-4.2	-1.2	0.7050	94.1	36.8	-4.2	-1.2	0.7050	94.1
April 1990	26.4	-6.0	n.a.	1.2123	96.5	17.2	3.1	1.9	191.91	117.8	26.6	4.9	2.9	2.0446	119.2	13.9	-0.58	-0.65	6.8874	105.2	11.1	-0.6	-2.4	1601.8	101.8	11.5	-2.8	-2.6	0.7404	97.1	11.5	-2.8	-2.6	0.7404	97.1
May	26.5	-6.3	n.a.	1.2320	97.4	17.9	3.1	1.7	189.44	120.3	26.0	5.9	4.5	2.0482	118.9	14.1	-0.75	-1.0	6.8992	104.2	11.5	-3.7	-1.4	1604.9	101.8	12.0	-2.1	-1.8	0.7343	98.6	12.0	-2.1	-1.8	0.7343	98.6
June	26.0	-4.4	n.a.	1.2227	97.5	18.6	4.9	2.9	188.00	120.7	25.2	4.0	1.5	2.0582	118.0	14.2	-0.50	-0.01	6.8928	104.1	12.8	0.6	-1.4	1611.9	101.0	12.8	-2.3	-2.1	0.7138	98.4	12.8	-2.3	-2.1	0.7138	98.4
July	25.4	-7.2	n.a.	1.2825	95.6	18.1	4.1	1.3	188.16	122.2	27.1	4.6	2.2	2.0879	118.0	14.0	-0.68	-0.68	6.8960	104.4	13.0	1.3	-1.0	1514.7	101.2	11.7	-2.6	-1.9	0.6882	95.5	11.7	-2.6	-1.9	0.6882	95.5
August	24.7	-7.4	n.a.	1.3182	93.7	17.7	4.4	2.2	184.22	120.8	27.6	4.1	1.9	2.0713	119.0	14.2	-0.75	-0.45	6.8488	105.1	13.5	0.2	0.1	1528.2	101.2	12.2	-1.8	-1.2	0.6844	95.3	12.2	-1.8	-1.2	0.6844	95.3
September	25.0	-7.1	n.a.	1.3182	93.7	17.7	4.4	2.2	184.22	120.8	27.6	4.1	1.9	2.0713	119.0	13.8	-1.37	-1.23	6.8772	105.2	10.7	-1.2	-1.0	1542.3	101.2	12.2	-1.8	-1.2	0.6844	95.3	10.7	-1.2	-1.0	1542.3	101.2
October	25.8	-8.1	n.a.	1.3568	90.9	18.4	4.2	1.8	182.38	128.5	27.4	3.8	3.2	2.0683	118.7	14.8	-1.04	-0.84	6.8944	104.8	12.4	-1.0	-0.8	1548.2	99.4	12.5	-1.6	-0.6	0.6874	94.8	12.5	-1.6	-0.6	0.6874	94.8
November	24.7	-6.4	n.a.	1.3861	90.2	18.4	4.1	1.5	178.94	134.6	27.5	1.5	0.3	2.0593	120.2	14.4	-0.20	0.29	6.8296	105.9	10.9	-2.4	-2.1	1547.4	99.9	12.4	-1.4	-1.2	0.6723	93.5	10.9	-2.4	-2.1	0.6723	93.5
December	24.3	-4.6	n.a.	1.3716	91.2	18.3	4.0	0.9	183.34	130.9	26.5	1.3	2.1	2.0580	120.8	13.1	-1.34	-1.13	6.8945	104.7	12.5	1.3	-2.7	1545.6	100.1	11.9	-1.2	-0.2	0.7123	93.5	12.5	1.3	-2.7	0.7123	93.5
January 1991	25.2	-5.3	n.a.	1.3825	91.2	18.7	5.2	2.6	182.11	131.1	28.4	0.7	-1.0	2.0580	120.2	13.9	-0.84	-0.37	6.8948	104.7	9.9	-3.2	-2.6	1546.7	100.0	11.8	-1.8	-1.1	0.7042	94.1	9.9	-3.2	-2.6	0.7042	94.1
February	24.1	-3.8	n.a.	1.3897	90.3	18.4	6.2	4.2	182.38	132.2	28.6	1.4	-0.8	2.0587	120.6	13.5	-0.97	-0.69	6.8951	104.2	11.1	-0.3	-2.0	1543.2	99.8	11.8	-1.9	-1.0	0.7042	94.1	11.1	-0.3	-2.0	0.7042	94.1
March					93.9	21.2	6.6	6.3	176.44	132.0																12.0	-1.3	-0.8	0.7042	94.1	12.0	-1.3	-0.8	0.7042	94.1



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## Major attacks on health, education

By Philip Stephens, Political Editor

MR John Major will this week attempt to take the general election battle to opposition Labour party's traditional strongholds of health and education after an unprecedented weekend slanging match over the NHS.

In a ferocious fight for the political initiative, Labour indicated that it will intensify its attacks on the government's handling of the economy. It demanded an immediate 1-point cut in interest rates and an emergency package of measures to help the unemployed.

In a speech tomorrow, the prime minister will claim that the economy has reached a turning point, with the fall in inflation paving the way for the end of recession. He will warn the Confederation of British Industry, however, that the speed of that recovery will depend on negotiations holding down the level of pay awards.

Mr Major will then spell out to the CBI his plans for a "revolution" in the provision of further and higher education which would remove colleges of further education from local authority control and end the divide between polytechnics



John Major: taking poll offensive to Labour strongholds

and universities, designed to increase by tens of thousands the number of new student places by 1995.

The White Papers, which Mr Major is to launch personally,

vision" for the 1990s.

The prime minister's decision to go on the offensive was met with derision from the Labour party.

Mr Gordon Brown, shadow trade and industry spokesman, said Mr Major was "on the run over the health service and on the rails over economic failure."

The bitter dispute over the impact of the NHS reforms intensified as Mr Major twice repeated his allegation that Labour had deliberately "lied". The row centres on Labour's claim during the Monmouth by-election that trust hospitals established under last month's health reforms had "opted out" of the NHS.

Mr Robin Cook, opposition health spokesman, challenged Mr William Waldegrave, health secretary, to admit that he had ceded control in trust hospitals of the building, levels of staffing and levels of patient care.

However, the language in Mr Cook's challenge - referring to the trusts opting out of their "health authority" rather than from the NHS - was seized upon by ministers as a sign that Labour was retreating.

## Law Society at odds with Borrie over audit report

By Robert Rice, Legal Correspondent

THE LAW SOCIETY has called on Mr Peter Lilley, trade and industry secretary, to reject a report by Sir Gordon Borrie, director-general of fair trading, on the ownership and control of audit firms.

The new scheme for the regulation of auditors under the 1989 Companies Act provides for regulatory bodies to be recognised by the Department of Trade and Industry.

The Institutes of Chartered Accountants have applied for recognition and stipulated in their rules that at least 75 per cent of the partners or shareholders in an audit firm should be qualified accountants.

Sir Gordon's report concludes that this rule is anti-competitive. He took into account the possibility that "when other professions, notably the legal professions, relax their rules on multi-disciplinary practices (MDPs) some accountancy firms which are eligible for appointment as company auditors will seek to enter these fields".

Sir Gordon concluded that the 75 per cent rule would inhibit the development of MDPs and was anti-competitive.

The Law Society, which is opposed to solicitors being allowed to enter into MDPs with other professions, fears domination by the large accountancy firms if the government forces through a relaxation in the rules governing mixed partnerships.

The society criticises Sir Gordon's approach saying there is no evidence to support his claim that competition would be enhanced by a more relaxed rule.

It argues that competition in the market for audit services may be more affected by those who buy audit services than the ownership and control of audit firms.

The society supports the accountants' view that the restrictions on ownership and control are essential to the independence and integrity of the audit function and it urges Mr Lilley to recognise that the rules are justifiable for this reason.

## TV companies say franchise group has made erroneous bid

By Raymond Snoddy

THE INDEPENDENT television companies threatened by bids from CPV-TV - the company associated with Mr David Frost, the television personality, and Mr Richard Branson, founder of the Virgin Group - claim to have found a significant error in its application documents.

CPV-TV has promised to provide far higher levels of regional programming than the incumbents in its bids for the franchises now held by Thames, the London weekday station, TVS in southern England and Anglia in eastern England.

The Frost-Branson consortium pledges to provide 36 hours of regional broadcasting a week. By contrast, Thames promised to increase its regional programming from seven to seven-and-a-half hours.

Similarly CPV-TV, which is backed by Royal Bank of Scotland and the Charterhouse finance group, talks of 60 hours and 40 minutes of regional programmes a week in its applications against TVS and Anglia. This compares with the 17 hours offered by TVS.

On the surface, such high hours of regional programmes would appear to leave little time for the national network programmes which bring in large audiences and revenues.

Mr John Gau, chief executive and director of programming at CPV-TV, said yesterday that the details of its regional

broadcasts had included an overnight service which would be broadcast only in the region and would be largely made up of acquired programmes.

The Independent Television Commission, which is now beginning work on the 40 applications for the 16 commercial broadcasting licences on Channel 3, as ITV will be known, yesterday confirmed that CPV-TV had got it wrong.

Applicants had been expected to list their own productions or commission programmes in the regional hours programme.

The ITC said the error would not invalidate the CPV-TV bids, although clarification might be needed.

Mr Charles Levison, managing director of CPV-TV, yesterday said of the company's critics: "Presumably they are concerned we have made a higher offer and that is why they are trying to trash our application."

Bidders and ITV companies alike are reading through the various application documents of their rivals looking for weaknesses.

Thames notes that both of its opponents, CPV-TV and Mr Michael Green's Carlton Communications, are planning their own twice-weekly series which Thames believes would replace The Bill, the popular police series. CPV merely says its series will be based in the south and will appeal to CS's peak-time audiences.

## Rise in national savings

By Philip Coggan, Personal Finance Editor

NATIONAL savings products proved alluring to investors in April, attracting a net £251m to the government's coffers.

A flourishing range of national savings products will be welcome news for the government as it faces the need to finance a budget deficit.

Throughout 1990 and the first quarter of 1991, investors made net withdrawals from national savings products.

In spite of the recent fall in inflation, the most popular products in April were the

index-linked certificates, which pay 4.5 per cent above the retail prices index tax-free if held for five years. A net £128.9m was invested in index-linked certificates last month.

Fixed interest certificates received a net addition of £16.7m and income bonds received a net £57.9m.

The only account to suffer a net repayment was the ordinary account with £3.1m.

The total invested in national savings is £36.9bn.

## Morris sees 'turbulence' ahead if elected

By John Gapper, Labour Editor

MR BILL MORRIS, deputy general secretary of the TGWU general union, has predicted a "turbulent" period if he is elected its next leader because the union's powerful regional secretaries oppose reforms he wants to make.

He said in an interview with the Financial Times that he might press for the 11 regional secretaries, who have largely opposed his election as the successor to Mr Ron Todd, to face election themselves if they obstructed his plans to devolve power to local districts rather than regions.

Mr Morris said he hoped for "reconciliation not retribution" if he was elected. But the regional secretaries, who have mostly supported his main opponent Mr George Wright, would have to accept that he would have a democratic mandate.

He said he was not advocating elections for regional secretaries at the moment. However, if there was significant resistance to his policies from regional secretaries, he "would not hesitate to appeal to the members."

"It is going to be fairly turbulent at the start, but it will calm down," said Mr Morris. He said the whole question of the future democracy and structure of the union would have to be reappraised.

He said that he "did not see why people who have wide areas of influence should not be subject to election."

At the moment, the regional secretaries are appointed directly by the unions national executive.

Any move towards elections for regional secretaries would have to be approved by a rules revision conference of the union due in June 1992. However, some left-wing officials discount any attempt to introduce regional elections.

The election campaign has emphasised the political divisions in the union, with most national officials supporting Mr Morris and most regional secretaries backing Mr Wright, himself the Wales regional secretary.

## Fabians warn of job losses

By Michael Smith, Labour Correspondent

TARGETS set by the opposition Labour Party for a proposed national minimum wage could lead to significant job losses and may not lift the relative earnings of the low-paid, according to a pamphlet published yesterday by the Fabian Society.

The paper will be seized upon by the Conservative Party, which is embroiled in a row with Labour over the effects of a minimum wage. The Fabian Society is a Labour Party affiliate.

Labour has said that initially it will set the national minimum wage at a half of median men's earnings, with an eventual target of two-thirds of the median male hourly rate.

The Fabian Society pamphlet, written by Mr Fred Bayliss, a former civil servant, says the initial target should be half median earnings of all workers, including women. A target beyond that could spark a reaction, making it less likely that the relative position of the

low-paid will improve and more likely that "destructive economic consequences will ensue." He says the eventual target of two-thirds of median earnings may require a more concerted policy by employers and unions to minimise job losses than they are capable of sustaining.

Meanwhile, Mr Rodney Rickerstaffe, general secretary of the NUPE public sector union, yesterday poured scorn on government estimates that 2m jobs would be lost through the introduction of a minimum wage. Jobs would be created, he said, because employers would be forced to compete on productivity, rather than low wages, and the spending power of the low-paid would increase.

The initial target of half median earnings would hardly provide a living wage, Mr Rickerstaffe told his union's annual conference in Scarborough, north-east England, but it would benefit 4.5m people.

In the Fabian Society pamphlet, Mr Bayliss says that, if the relative position of the low-paid is to be improved, the minimum wage must move up by larger increases than pay generally. However, there would be a tendency for other workers always to want at least as big an increase as the low-paid.

An initial level at half median earnings would be higher than all wage councils rates and the two lowest pay rates in the National Health Service and local authorities. It would directly benefit 1.8m workers.

However, it would not be so high that unions could justify using the new minimum as an excuse for leap-frogging pay claims.

Mr Bayliss advocates the creation of a Minimum Wage Commission of labour market specialists, economists, business people, and trade unionists to advise on levels every year.

## Disillusion on payment by performance

By John Gapper

SOME companies which introduced individual performance-related pay in the 1980s are considering switching to group bonuses to improve team working.

A study for the Department of Employment of pay pressures in the private sector, undertaken for the Department of Employment, has found some disillusion among companies over performance-related pay and doubts over its whether it is useful for manual workers.

The study of 25 companies found eight intended to increase reliance on individual performance-related pay, but others had "strong reservations" over whether it was worth introducing for manual workers.

Manufacturing companies in particular said individual performance-related pay had conflicted with team work and reduced output quality.

# WINNERS.

AGAIN.

At Silverstone yesterday, Jaguar topped the recent 1-2 win at Monza with another convincing victory, in the latest round of the Sports car World Championship\*. A further triumph for the new 3.5 litre XJ6 14 the team have unveiled this season.

AND AGAIN.

Meanwhile, the new Jaguar XJ6 3.2 and 4.0 litre models continue to dominate their rivals on the road.

	ACCELERATION 0-62 MPH
XJ6 3.2 CATALYST	9.0
BMW 720i CATALYST	9.3
Mercedes 300SE non-catalyst	9.3

\*FIGURES ARE 0-62 MPH TIMES IN SECONDS. TIMES ARE NOT AVAILABLE WITH CATALYST IN UK MARKET.

After road testing 11 luxury Saloons recently, 'Car' Magazine declared simply: "Victory, then, goes to the Jaguar".

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## UK NEWS

## Securities firms' losses in 1990 put at £353m

By Richard Waters

LONDON securities houses lost £353m last year as the stock market slowed sharply amid a domestic recession and the crisis in the Gulf.

While their income plunged to £2.3bn from the £3.4bn of 1989, securities firms trimmed their costs by just 3 per cent, to £2.7bn, during the year. This was in spite of cutting 3,000 of their 24,400 staff.

The figures, compiled by the Securities and Futures Authority, the self-regulatory organisation, are disclosed in the latest edition of the London Stock Exchange's Quality of Markets Quarterly.

They show that while the buoyant stock market of the first quarter of this year relieved some of the pressure on stock exchange firms, it did nothing to solve their longer-term difficulties.

A collapse in dealing profits was largely to blame for the securities companies' worst year on record, which followed a £500m profit in 1988.

Position-taking in equities earned under £400m, less than half the £800m of 1989. Bond dealing returned a loss of £100m after a profit of the same size the year before.

These poor performances

were due in part to large one-off losses at certain unnamed houses, the stock exchange said.

In comparison with the collapse in dealing profits, commission income fell by a more modest 18 per cent, in line with the decline in stock market activity, to about £800m during the year.

Fee income fell by more than a third to less than £400m, reflecting the decline in capital raising on the stock market.

While income has fluctuated wildly, securities firms' costs have been more stable. They stand at about the level they did before the 1987 stock market crash. This is in spite of efforts to cut overheads following the growth which accompanied Big Bang deregulation in 1986.

Last year's losses exceeded the £155m lost during the disastrous year of 1988. By comparison, in the three months surrounding the October 1987 crash, securities houses lost £375m - virtually wiping out profits made in the first nine months of that year.

*Quality of Markets Quarterly Review, January-March 1991, London Stock Exchange, EC2 2E6.*

## London bus deregulation paper is criticised

By Richard Tomkins, Transport Correspondent

A GOVERNMENT consultation paper proposing early deregulation of London's buses has provoked widespread criticism.

Organisations say the proposal will worsen the capital's transport problems by driving people off buses into cars or crowded Underground trains.

The plans to open up the capital to unfettered competition among private operators were published by the Department of Transport in March.

Under the plans, anyone with a public service vehicle licence would be able to run whatever bus services they liked. That would bring London into line with the rest of the country, where buses were deregulated in 1986.

The London Regional Passengers Committee, a statutory body representing the capital's transport users, said that it sees no benefits from "imitating the chaos and confusion which deregulation has brought to other major cities".

The Town and Country Planning Association, an independent organisation lobbying for environmental improvements, said it was hard to see "how deregulation can be anything other than a disaster".

Deregulation outside London had produced a 20 per cent decrease in bus passenger journeys in metropolitan areas over the past four years, according to the TCPA.

Plaxton, the bus manufacturer, said that operators trying to stretch the life of their vehicles would crowd London's streets with buses that are "inefficient, smoky, noisy and uncomfortable".

The Association of London Authorities, a Labour-led organisation representing councils in the capital, said deregulation would reduce off-peak services and could threaten concessionary fares.

The Capital Transport Campaign, a transport pressure group, said bus services would be plunged into disarray.

The Department of Transport received 170 responses, but said it was too early to say whether the majority were for or against the proposal.

## Property prices poised to spiral again

Next year is likely to see a sharp rise in people moving home, reports Andrew Taylor

HOUSE PRICES will rise by more than double the rate of inflation next year and will continue to outpace increases in average earnings for most of the 1990s, according to a new review of the housing market.

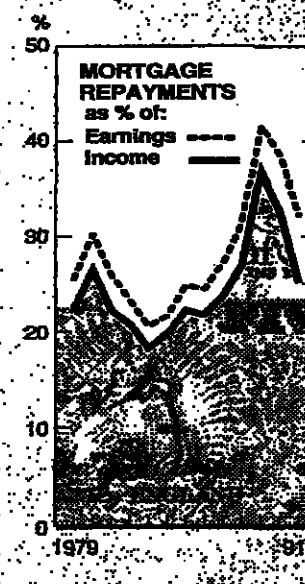
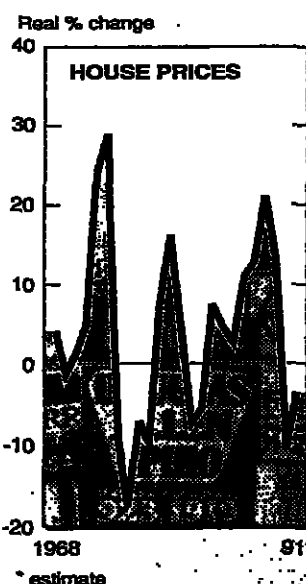
The study, compiled by UBS Phillips & Drew, the UK stockbroker, estimates that up to 800,000 people have postponed moving home during the past three years because of the property slump.

P&D says house prices are likely to rise by 10 per cent next year - more than twice the expected rise in retail prices - as this pent-up demand is released and a combination of lower house prices and falling interest rates encourages people to start moving again.

Housebuilders have already reported an increase in new house sales since interest rates started to fall in February.

Mr Richard Mooney, chairman of Taylor Woodrow Homes, said last month that sales during the first three weeks of April had risen by 25 per cent.

P&D expects sales of all types of houses to rise by 20 per cent this year. But it says prices are unlikely to rise immediately because rising



unemployment is likely to dent the confidence of potential buyers and there is a large amount of unsold property on the market.

Housebuilders have about 30,000 unsold properties on their books. P&D also estimates that building societies

and banks this year will need to sell about 80,000 homes repossessed as a result of defaults on mortgage repayments.

P&D forecasts that house prices will rise by only 2 per cent this year before moving up sharply next year, because

of a combination of rises in real incomes, lower house prices and falling interest rates. Unemployment should also be rising at a lower rate, restoring confidence among buyers.

The cost of mortgage repayments as a proportion of total

household income is forecast to fall from 32 per cent this year to 25 per cent in 1992, taking it back to 1987 levels.

The backlog of unsold properties on the market should also be substantially reduced. P&D expects repossession of homes by banks and building societies to decline as mortgage interest rates fall.

The forecast that prices may rise sharply next year may unsettle Treasury ministers who have blamed the 1988 house price surge for contributing to the rise in inflation.

Mr Norman Lamont, chancellor, announcing the abolition of higher rate mortgage tax relief in the March Budget, said: "We need to do all we can to ensure that when recovery comes it is not accompanied by another bout of house price inflation with the unwelcome consequences that would have for inflation and interest rates."

But the P&D study says that "The government will do nothing to adversely affect the housing market in the period leading up to the next general election, which may be delayed until next year."

*Housing Market: Ready for lift-off? UBS Phillips & Drew, 100 Liverpool Street, London, EC2 2E6.*

## Demographic shift seen as positive for house values

CHANGES in the age mix of Britain's population will help underpin housing demand during the 1990s and stimulate increases in prices during the period, says UBS Phillips & Drew, Andrew Taylor writes.

That view runs counter to the views of some commentators, who argue that demographic changes will adversely affect the housing market.

The rate of growth in the population and household formation is forecast to slow markedly during the decade, partly as a result of the birth rate having peaked in 1964.

The number of 25-year-olds in the population is expected to decline by a fifth in the next five years.

P&D says the proportion of the population between 25 and 35 is expected to

rise, as those born during the 1960s grow older.

That age group accounts for 41 per cent of house buyers and 40 per cent of first-time buyers.

The proportion of the population aged 40 to 64, by comparison, is expected to rise from 18.5m to 19m by the end of the century.

That age group tends to buy larger,

more expensive homes and will more than compensate for the expected increase in houses coming on to the market as elderly people trade down to smaller homes.

Growth in household formation is still forecast to rise at 1/4 per cent a year, due to a rising divorce rate, the elderly living longer, and the trend for young people to leave home earlier.

## Major to launch reforms for higher education

RADICAL reforms in the education of students over the age of 16 will be announced today when the government unveils its white papers on further and higher education, writes Andrew Adonis.

Mr John Major, prime minister, is expected to launch the white papers personally to shift political debate away from health on to education.

Ministers are determined to increase the proportion of 16 year-olds remaining in full-time or part-time education and training. They are particularly keen to make vocational courses more attractive to prospective school-leavers. One of the main components of the reforms is expected to be a new image and extra funding for vocational qualifications.

The proposals are also expected to include details of new diplomas for 16 and 18-year-olds who reach a set standard in academic or vocational studies.

The diplomas are intended to help break down the existing divide between the two fields, and raise the low prestige of non-academic qualifications. The government also plans

to remove further education, tertiary, and sixth-form colleges from local education authority control. All 600 such colleges in England and Wales will become independent and financed by a national funding council.

The white papers are also likely to herald an end to the division between polytechnics and universities. If so, poly-

technics achieving satisfactory standards may be allowed to become full universities and award university degrees.

The funding councils for the two sectors may also be merged. The proposals are likely to include a new financing regime to encourage institutions to market themselves to prospective students.

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## APPOINTMENTS

## Chairman of Stag

Mr Peter Ryan has been appointed non-executive chairman of STAG FURNITURE HOLDINGS. He has been a non-executive director since 1984. In chairman of Elge Group, and chairman of Europe, and deputy chairman of Davies and Newman Holdings. He succeeds Mr Patrick Bedford who retires but continues as a director. Mr George Ella has been appointed chief executive. He was managing director of Stag Meredew Furniture.

Mr David Ferrar has been appointed director of its open systems operation. He was a director, commercial and financial division, Software Sciences.

Mr William McGlave has been appointed vice president, marketing, for PIZZA HUT (UK). He was vice president of marketing at head office in Wichita, Kansas.



DATAQUEST EUROPE, Denham, has appointed Mr Robin Duke-Woolley (pictured) as director, European telecommunications group. He was director and general manager, business systems division, STC Telecommunications.

KODE COMPUTERS, Swindon, has promoted Mr Terry White to sales and marketing director and Mr Malcolm Chaille to operations director. Mr White was sales and marketing manager, and Mr Chaille was national support manager.

GREGGS, a bakery group, has appointed Mr James Bennett as managing director at Greggs of Knifield, and Mr Ian Pegg as managing director of Charles Bragg (Bakers), Birmingham. Both have been with the group for seven years.

Mr Jeremy Bancroft has been appointed sales director of AVS Broadcast, Chessington, a subsidiary of AVESCO. He was sales manager of Digital Audio Research.

PWS INTERNATIONAL has appointed Mr Daniel Donoghue to the board as head of the marine division. He was managing director and chief executive of Tower Hill

Insurance Brokers, of which he was a founder member.

Mr Peter Brynes has been appointed managing director of FAIRCLOUGH SCOTLAND, part of AMEC. He was managing director, northern region, at Ballast Nedam Construction.

Mr Peter Langford has been appointed northern divisional director of ALEXANDER STEINHOUSE UK. Based in Manchester, he succeeds Mr Roger Sumner who retires in October. Mr Tony Nuttall succeeds Mr Langford as local director, Liverpool. Mr Alastair Hunter has been promoted to local director, Glasgow.

## Albany Life moves

Mr Ralph Sepel retires as managing director and chief executive of ALBANY LIFE ASSURANCE CO. and MetLife (UK) at the end of June. Mr Alexander D. Brunial, deputy managing director of Albany Life, will head the company from July 1. Mr Sepel remains on the Albany board as deputy chairman. Mr William G. Foortvliet, executive vice president of Metropolitan Life, New York, in charge of world-wide insurance operations, will become chief executive of MetLife (UK), the holding company for Albany Life and its sister companies. Mr Ian L. Solomon will head MetLife's subsidiary holdings, the sister companies of Albany Life.

Mr Richard Hastings has been appointed a director of NCB GROUP, Dublin, and chairman of NCB Corporate Finance from July 1. He was chief executive Britain with the Bank of Ireland.

WESTPAC GENERAL FINANCE, part of Australia's Westpac Banking Corporation, has appointed Mr W.A. James as head of finance and administration. He was with The Union Discount Co.

Mr Chris Spooner has been appointed group taxation controller of STANDARD CHARTERED. He was with the Bank of America.



Mr Nicholas Harvey (pictured) has been appointed head of corporate finance at GRANVILLE & CO, a private investment banking group. He was head of the mergers and acquisitions department.

## £24m orders for Lilley Group

LILLEY has been awarded £24m of new orders during April, including a £4.4m road reconstruction contract on the A1 near Doncaster, due for completion in 100 days.

Other significant contracts include the construction of a new police headquarters in Dumfries (£3.8m), a design and build contract for 80 dwellings in Catterick for the Department of the Environment (£3.1m), and a modernisation contract for 103 dwellings for Doncaster Metropolitan Borough Council worth £4.3m.

## School buildings

ALLEN, based in Wigan, has won orders totalling in excess of £5.75m.

Allen-Fox Construction, specialising in design and build, has obtained a £1.6m contract from Leeds City Council for a new primary school at Roundhay.

Wigan Metropolitan Borough has awarded a £1.7m contract to Stanfield High School. Other projects include a school extension for the County of Lancashire at Elms Green, further work for Glaxo Pharmaceuticals, a hotel in Manchester for the Salcare Trust, office conversions and an adult training centre at Dudley for the Metropolitan Borough.

## Retail project in Aylesbury

HENRY BOOT is undertaking an extensive reconstruction and extension project of retail units at the Friar's Square shopping centre in Aylesbury for the Friends Provident Life Office.

Within the £28.6m redevelopment scheme, major improvements are to be carried out including new entrances, roof

ing over the open market square, a link bridge and alterations to the bus station and other services. The management contract will be completed by May, 1993.

After having completed a pilot scheme, Henry Boot has been awarded a £3.3m contract to improve access and security on the Chalkhill housing estate

in Wembley.

Completion of the management contract is programmed for April 1992. The client/architect is the London Borough of Brent.

Other £3.7m management contracts work recently obtained includes fast track fitting-out and refurbishment at six TSB branches.

## Peterborough power station buildings

KIER CONSTRUCTION, part of Beazer National Construction, has won a £14.5m contract for the design and construction of buildings and major civil engineering works at the new Peterborough power station for Hawker Siddeley Power Engineering's private power division.

The project forms part of a turnkey contract for Peterborough.

ough Power to provide a new combined cycle gas turbine power station for Peterborough.

In addition to various maintenance and administration buildings, Kier will design and build the turbine hall. This will house the steam turbine and two gas turbines to drive the 350MW plant.

Ove Arup & Partners are

Kier's design engineers for the contract which is due for completion in September 1993.

Work is due to begin shortly although the company is already present on site having won the £1.3m advance works contract which began in February.

Kier recently began work on the new Corby power station under a similar £15m contract.

## Offices development plan in Pimlico

TRY GROUP has secured contracts together worth £22m. The largest, at £10.8m, is for a new office development in Ebury Bridge Road, London SW1. The project was awarded by Grosvenor Estate Belgravia and Commercial Union Life Assurance.

The development comprises 79,000 sq ft of offices on eight floors. The structure, built around a reinforced concrete frame will be faced externally in brick, natural stone and double glazed aluminium cur-

tain walling. Internally, the offices and cores will be fully fitted out to a high specification. The 72-week contract begins this month.

Granada Motorway Services has awarded Try Construction an £2m contract to build an amenities complex at Junctions 30/31, just half a mile from the Lakeside shopping development, Thurrock.

Until now only petrol, diesel fuel and temporary catering facilities have been available at the service area but when con-

struction is completed there will be restaurants, shops, and a 44 bedroomed lodge. Large car, coach and HGV parks and access roads are incorporated in a substantial landscaping scheme. The new facilities will be opened in the spring of 1992.

The Try Build subsidiary has two fitting out projects: district offices for Midland Bank in Finsbury Park and offices for Compagnie Generale de Geophysique at Heathrow and a sports deal in south east London.

## London airport hotel

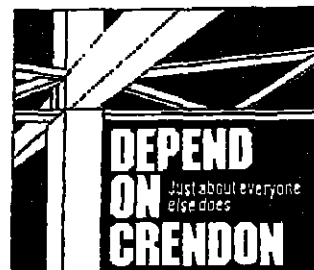
Novotel UK has awarded WIMPEY CONSTRUCTION a £7m design and build contract for a 178-bed hotel alongside the main M4 spur to Heathrow airport. Work on the four-storey brick-clad building has started and is due for completion in May 1992.

The main structure of the hotel forms a U-shape with guests rooms surrounding a central glazed atrium which houses the reception area, lounge, bars and restaurant and links to the swimming pool and leisure facilities. Extensive conference and banqueting facilities are provided in an integrated single-storey building.

## Housebuilding

Hall & TAWSE has won a contract to build housing for specialist Japanese workers at the new Toyota plant near Derby. The £4.5m development of 50 houses is being built on the 2.8 acre site of the city's former Manor Hospital and will be leased to Japanese technicians working on the first phase of the new plant at Burnaston.

Demolition work on the hospital has started and the first phase of the 10 three-storey luxury apartments will be handed over next January.



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## Birmingham motorway scheme

The national civils division of R M DOUGLAS CONSTRUCTION has won a package of orders worth £5.6m from the Department of Transport for the reconstruction of major highways in Birmingham. The largest is for a £4.4m reconstruction of the M6 motorway from Junction 7 to the northern limits of the Ray Hall Viaduct.

Work will include resurfacing a 2.2 km section of both the north and south bound carriageways and slip roads together with associated groundworks. The contract also covers local construction adjacent to three underpasses and general refurbishment of kerbing, safety barriers and parapets. Work is due to start on site at the end of May for completion in November.

The Department has also awarded contracts worth £1.2m for the rebuilding of fire damaged sections of the A38 at Spaghetti junction.



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## RAND MINES LIMITED

## DIVIDEND DECLARATION

The directors have declared dividend No. 103 as an interim dividend in respect of the year ending 30 September 1991 as follows:

Amount (South African currency)	100 cents per share
Last day to register for dividend (and for changes of address or dividend instructions)	7 June
Registers of members closed from to (inclusive)	8 June 16 June
Shares trade ex-dividend in Johannesburg and London	10 June
Currency conversion date for sterling payments to shareholders paid from London	24 June
Dividend warrants posted	1 July
Payment date of dividend	2 July
Rate of non-resident shareholders' tax	15 per cent

Holders of share warrants to bearer are notified that the dividend is payable on or after Tuesday, 2 July, 1991 upon presentation of coupon No. 106.

The full conditions of payment of this dividend may be inspected at or obtained from the offices of the share transfer secretaries in Johannesburg or the offices of the United Kingdom registrars and paying agents in Beckenham, Kent.

By order of the board  
RAND MINES (MINING & SERVICES) LIMITED  
Secretaries  
per F. D. W. PEACHEY  
17 May 1991  
RECOMMENDED OFFICE: SECRETARIES IN THE  
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## MANAGEMENT

## National Health Service

# Why the cupboard must never be bare

In the light of a report by the National Audit Office, Alan Pike compares the performance of the purchasing and supply function with that of the UK private sector

Why should the price of textured, pre-powdered surgical gloves vary by up to 155 per cent between the neighbouring Wessex and Oxford regions of the National Health Service?

The Commons public accounts committee will today set off in pursuit of the answer to this and similar questions — like why some NHS institutions were paying 41 per cent more than others in the same region for cornflakes last year. Bureaucracy-lovers will recognise at once that such questions rank among the great unanswerable mysteries of life. Perhaps the cornflakes varied in quality? Was the lowest price recorded for gloves such a bargain that it put the supplier out of business, and the highest an emergency when someone had to buy a single pair from an overcharging shop?

Any self-respecting civil servant could come up with an almost infinite number of grounds for casting doubt on the validity of the comparisons. But the big question behind the specific ones — does the NHS get value for money as a leading purchaser and distributor of supplies? — raises serious issues about the management of the service.

The NHS purchasing and supplies organisation, which provides hospitals with food, bedding and a vast array of equipment, is among the biggest and most complex in the country. Excluding drug costs, it spends £4bn a year in England and deals with more than 20,000 suppliers.

Efforts to improve the efficiency of NHS purchasing and supplies activities are almost as old as the health service itself. As long ago as 1951, three years after the NHS was formed, the public accounts committee began calling for greater use of competitive tendering and group purchasing.

Today the committee will consider the results of the latest in a long series of investigations into the service's purchasing and supplies activities,

contained in a report by the National Audit Office. This concludes that while progress had been made towards operating more professional and efficient services, more needs to be done.

So far, so uncontroversial — such conclusions have been reached before. This time, however, the NAO studied 16 private food, retailing and manufacturing companies with large-scale purchasing and distribution operations — including Marks and Spencer, Boots and Compass Services UK, a contract caterer — and compared them with the health service.

The results, concluded the NAO, showed that the management approach adopted in the NHS differed sharply "in almost every respect" from that of the private sector.

At the heart of the differences between the two sectors is the far higher degree of central control exercised by the private organisations over their purchasing and distribution operations. None of the private companies studied allowed local autonomy on the same scale as the NHS.

Although its supplies activities are still far more devolved than is customary in the private sector, the NHS's service has become more centralised in recent years. In 1985 there were 450 storage depots. Today there are 75 and the number is still decreasing.

Responsibility for managing

purchasing and supplies has, during the past 20 years, risen from hospital and district health authority level to the 14 English health regions. A procurement directorate in the Department of Health develops national policies and issues guidance, but has no executive power over the regions.

Although this lack of final, central authority may be uncommon in big private companies, NHS managers are convinced they can demonstrate to the Commons committee that their purchasing activities have become far more efficient during the past 10 years. A price-tracking service subscribed to by both the NHS and other large organisations shows the health service obtaining better than average prices.

What NHS managers

question is whether their supplies activities can really be compared with those of a private sector company in the way the NAO has done. To start with, the NHS is in the 24-hour health care business. "My local supermarket has often run out of bread by Saturday afternoon," commented one NHS manager. "We have to provide a distribution service in which hospitals never run out of things."

Even more fundamentally, the NHS purchasing and supplies service functions largely at the whim of its customers — the doctors and hospital man-

agers. Unlike a large retailer, the NHS cannot make central decisions about which brands to stock and then start delivering them to all its outlets. This is one of the fundamental differences between the NHS and the private sector revealed in the NAO report. The study found that while the private sector companies maintain tight controls over any "deviations from standard" orders, the NHS had no such central control and users' requests are normally met.

Not all surgeons are happy with the same type of textured, pre-powdered glove. This means the supplies service has to obtain low-volume items which would be excluded as fringe and unprofitable in the private sector, even though every addition to the NHS's already huge product line adds between £500 and £1,000 a year to operating overheads.

Unlike supermarkets, hospitals frequently push up costs by ordering non-standard items. Like most privileges, it is open to abuse.

The NHS supplies organisation entered into a national contract for the provision of paper hand-towels. One small group of employees refused to use the selected brand of towel, and a separate £25,000 contract — on terms 25 per cent higher than the national one — was eventually placed to meet their wishes, hard as this may be for some private sector managers to credit.



The supplies warehouse at Witham, Essex, which services the North East Thames regional authority: does the NHS get value for money as a leading purchaser and distributor?

But the NAO report, which relates this story, tells only the downside. The national contract has saved the NHS £450,000 on its previous paper towel bill; and a new unit was set up in February to exploit the cost advantages of further national contracting for bulk goods and services like energy, cars and medical gases.

The managerial thrust of the government's health reforms introduced last month, however, is away from central control and towards local autonomy. A difference of view between the Auditor General's staff and Department of Health officials over the relative merits of running a decentralised supplies structure emerges from the pages of the NAO report.

In the NAO's view decentralised structures and management reporting lines have in the past prevented the NHS from achieving a decentralised supplies structure, maximising purchasing power and taking a sufficiently wide view of strategic decisions on issues like the location of new storage depots. Mersey's new regional distribu-

tion centre, for example, opened in 1985. It has considerable excess capacity yet 13 local stores which it was designed to replace were still open early this year.

Department of Health officials, on the other hand, stressed to the NAO that they believe local accessibility and ownership of the service is important.

The establishment of local purchasing and supplies services covering areas roughly twice the size of each existing health region is emerging as a favoured policy objective in the Department of Health. Senior managers believe such units would be big enough to

achieve all the financial advantages of bulk buying, while retaining more scope than a Whitehall-dominated system for local contact with customer hospitals.

Under the new, more commercial system of NHS funding introduced by last month's reforms, all activities within the NHS will be based in future on contracts between purchasing and providing branches of the service. This will put hospital and health authority managers under greater financial pressure to avoid placing wasteful orders.

Managers in the purchasing and supplies service will be under equal pressure to make

their part of the NHS cost-effective. Customer hospitals will eventually be able to go to NHS supplies organisations in other regions, or the private sector, if they are unhappy with their local service.

As the NAO report acknowledges, some of the NHS regions have already begun developing a "more entrepreneurial stance" in readiness for the commercial style of management heralded by the reforms, and in a search for cost benefits.

Some regions are offering spare storage capacity to commercial customers; others are extending their supplies activities outside the NHS, while some are experimenting with contracting out the management of storage and distribution.

An extensive training programme for NHS purchasing and supplies staff, based on "real-life" exercises and intended to improve efficiency, is under way. All costs of the programme are covered by savings identified by staff during training. Last year, ideas generated during training exercises produced an immediate £800,000 worth of efficiency improvements, with a further £2m-worth of potential savings identified.

Staff development is an area where NHS managers are particularly happy for their purchasing and supplies service to be compared with the private sector. A number of job applicants from the private sector seeking posts in that area of the NHS have recently been rejected because they were considered to be inadequately qualified.

## The self-inflicted wounds of British would-be exporters

By Christopher Lorenz

Whenever a domestic recession rears its ugly head, British manufacturing industry sets up a rallying cry of "export or die".

Nothing wrong with that, you might think. Thoroughly laudable, in fact. But then why does all the shouting die down as soon as the UK economy picks up again?

The question is not as naive as it seems. True, exporting is usually harder and less profitable than selling at home, and there must always be a temptation to give renewed priority to local customers when domestic demand recovers.

But how can any company expect to succeed in foreign markets by treating exports as an on-off tap which, through marginal pricing and other short-term expedients, can be used to soak up temporary excess capacity at home?

One would have thought that such a self-defeating approach would have been discredited a quarter of a century ago: from at least the time of the first Wilson government, there have been constant warnings against it.

If the practice was foolish in the 1960s, it has been downright stupid for at least a decade. For one thing, winning exports through price alone has become less and less feasible as non-price factors (design, quality, delivery) have grown in importance in the vast majority of markets.

For another, the growing flow of German and Japanese products has made customers,

distributors and service agents everywhere too demanding to put up any longer with flimsy British suppliers.

Yet the temporary "capacity filler" approach to exporting still seems to be practised by large swathes of British industry, to judge from a study carried out by a London Business School professor, Peter Williamson. German and Japanese exporters, by contrast, adopt a far more consistent strategy and are far more successful.

### Stable prices

Williamson's study focused primarily on the degree of stability or volatility of the three countries' export pricing into the US market; it also shed considerable light on shifting market shares and export strategies as a whole. The method used was to analyse US customs records for the years 1982-85 to determine trends in dollar prices across 462 categories of manufactured product, from socks to air compressors.

The results are telling. First, Japanese exporters maintained prices which were both lower and more stable than those of German and especially UK exporters. German exporters charged higher prices than those in either the UK or Japan, but kept them much more stable than the British.

Writing in the journal *Long Range Planning*, Williamson also reports that the Japanese tended to price an unusually high proportion of their exports to the US (some 82 per cent in 1985) in dollars. This

approach creates a natural tendency for exchange rate fluctuations to be absorbed by producers, rather than passed on to customers.

Second, British exporters' market shares were not only lower than those of Japan and Germany, but also less stable; the average annual volatility for UK exporters was 17 per cent higher than for the West Germans, and 35 per cent higher than for the Japanese.

By examining separate data, Williamson also detected a further possible reason, over and above inconsistent pricing, for the poor British showing: that the Japanese put a much greater degree of investment into their US distribution, sales and service infrastructures. Tempering the gloom slightly, Williamson points out that British exporters have built strong and stable US market shares in mass market consumer goods such as spirits, confectionery and footwear, where well-developed third-party distribution networks exist. They have also thrived in products where the manufacturer's own UK-based sales force is able to deal with relatively few customers, and can ship directly to them.

But that is little consolation to the majority of British would-be exporters — most of whom, to judge from Williamson's work, would appear to be shooting themselves in at least one foot. Will they never learn? *—LRF Feb 1991, Pergamon Press, Oxford, UK and Elmsford, New York.*

## The 1992 Universal Exposition actually began ages ago.

You are in Seville, where the setting sun paints the buildings gold and your camera is poised to capture the magic of the Torre del Oro near the Guadalquivir river, before night falls.

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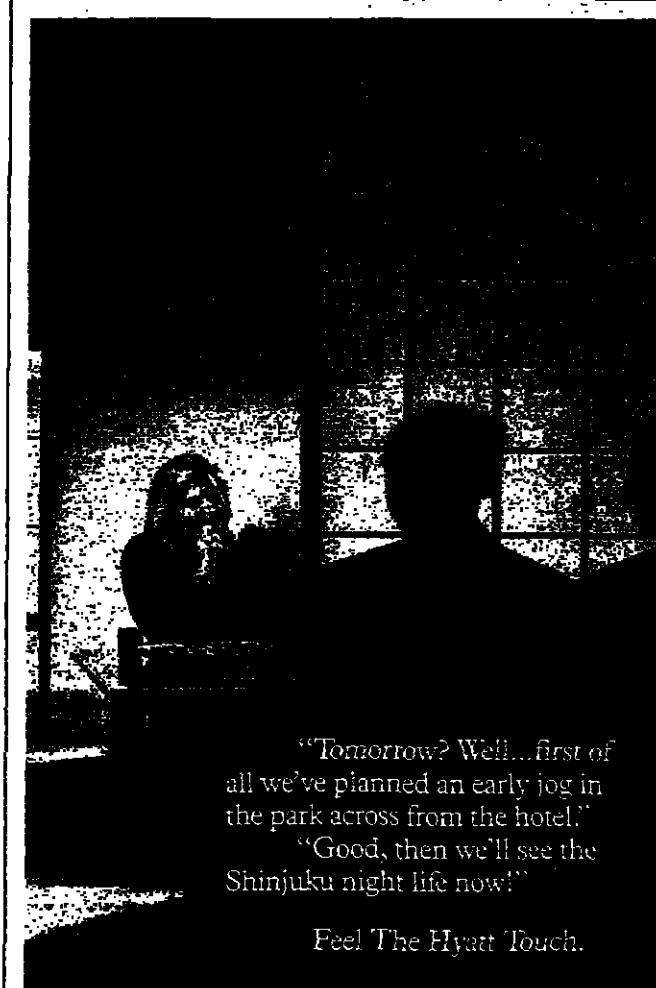


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# EMILIA ROMAGNA

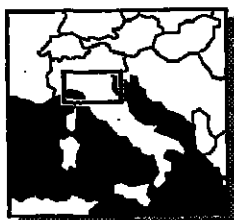
Monday May 20 1991

● Romano Prodi, former president of IRI, on the region's industry Page 2

● San Marino: the world's smallest republic fights to keep its identity Page 3



Neptune statue in Bologna: the city's contribution to the region has been equally impressive



**Affluence has brought in its wake a disturbing rise in social problems. The region, long a shop**

**window for the Italian left, may be facing a crisis of values. There is also concern at industry's capacity to meet the challenges of the 1990s. John Wyles investigates**

## A serpent in the Garden

EMILIA ROMAGNA has been Italy's land of milk and honey over the last 20 years. Well-endowed with natural beauty, economically prosperous and relatively well-governed, its industrious people have enjoyed well-balanced social and economic development. Now, however, a serpent of anxiety has entered this Garden of Eden, creating no little uncertainty about the future.

The region is experiencing not so much a crisis of values, although some observers of the eminence of Pope John Paul II see it that way, nor a plummeting of its economy, which certainly faces more difficulties than it once did, but rather the recognition that uncomfortable upheavals lie ahead.

These are not drastic enough to call seriously into question the celebrated "Emilia model", which in many ways was the regional paradigm of Italy's remarkable economic growth in the 1980s. With their 45,000 highly successful small and medium size businesses operating in agriculture and food products, industry and tourism, the 3.5m citizens of Emilia Romagna have come to enjoy the second highest per capita incomes in Italy.

But notable affluence has brought in its wake social problems which are common to much of western Europe, including the nation's third highest suicide rate, growing abuse of drugs, tensions

between the local population and North African immigrants, rising crime and a falling birth rate. This cocktail earned an unusually stern papal exhortation at the beginning of March of Emilia Romagna's "secularised and hedonistic" society. In a speech to local bishops, the Pope said the region was carrying the "stigmata of illness and death," and went on to list a falling birth rate, divorce and marital separations, the abortion and suicide rates, drug taking and the death toll in Saturday night road accidents to support his charges.

Naturally, this put the region's Communists on the defensive, since they have run so many communes either singly or in coalitions for many years. Emilia Romagna has been a crucial shop window display of the ability to govern of the Communist party - now the party of the Democratic Left - but its general decline in support has also now reached its heartland and in the view of some people this too has contributed to the emergence of a "crisis of values" in the region.

Yet very little of this is evident in Emilia Romagna's well-kept industrial towns: Piacenza, Parma, Reggio, Modena, Bologna, Imola, Faenza, Forlì, Cesena and Rimini. Each has made an important contribution to the region's sleek prosperity, from the processing of hams and

meat products in Parma to the farm machinery and Ferrari luxury sports cars of Modena to clothing at Carpi, ceramics at Sassuolo and Italy's single most popular holiday playground in and around Rimini.

Scratch the surface, however, and you find growing concern not only about social values but also about the capacity of the region's formidable industrial assets to carry the successes of the 1980s into the present decade.

The co-operative movement is undergoing a difficult restructuring to halt declining profitability in industry and manufacturing, the myriad of small and medium size businesses seem lodged in a growth-restricting orbit which means that only five of the region's companies are publicly quoted, while tourism on the Adriatic coast needs better infrastructural support and is struggling to recover from attacks of seaborne algae fostered by chemical fertilisers that have found their way into the River Po.

On the industrial front, Mr Romano Prodi, the former president of IRI, the giant Italian state holding company, who is simply endowed with the intelligence and good humour for which the Emiliani are famed, points the finger above all at the limited commitment and capacity of the region's companies to accomplish the tasks of research and development and product innovation.

This is readily acknowledged by Mr Gianandrea Rocco di Torrepadula, president of the Bologna province's association of industrialists, who blames the small average size of the

region's companies - a factor which he partly attributes to decades of communist and left administrations which have discouraged the emergence of large-scale business.

"Nonetheless, we do have world leaders in areas such as electronics and precision instruments which are small in global terms."

Mr Silvio Nizzoli, president of Erved, the region's industrial development agency, affirms that Emilia Romagna's industries are beginning to face up to the problem of innovation. Consortia of companies are being formed to give birth to joint R&D centres. Those in the process of being launched will focus on electronic engineering at Piacenza, flexible automation at Modena, plastic materials at Ferrara and environmental technologies at Ravenna. Bologna has launched a broader technological park.

But a key problem still not being properly addressed is the absence of flexible financial instruments to finance innovation and growth. "More risk capital has to be channelled to small companies," concludes Mr Nizzoli.

The relative smallness of its industrial companies - a constant and nationwide Italian preoccupation - is fully shared in Emilia Romagna. "You could say we will be disadvantaged in the Community's single market," says Mr Rocco di Torrepadula, "but, equally, small means flexible and adaptable." He sees the region's manufacturers developing a growing role as suppliers of semi-finished products to larger industrial companies.

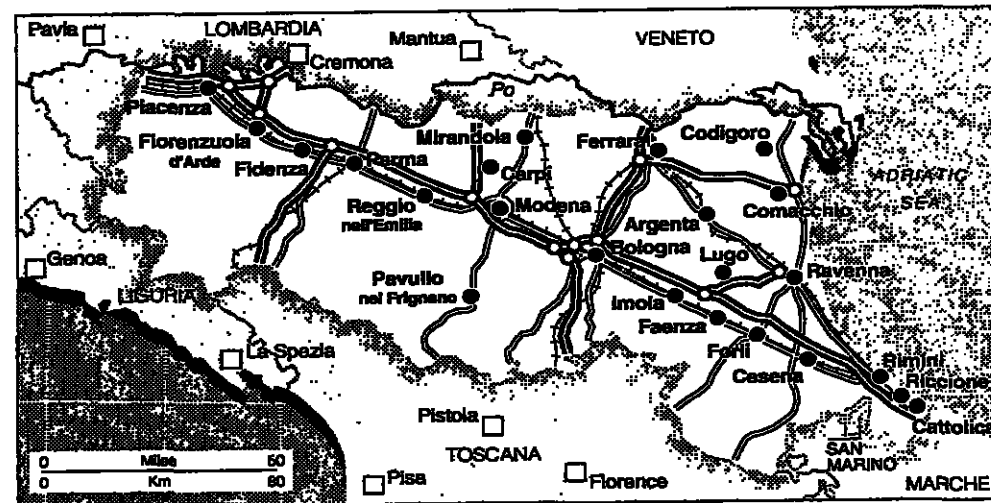
At the moment, however,

manufacturing in the region is exhibiting undeniable signs of stress. The engineering industry no longer exports significantly more abroad than it imports. "The commercial surplus has slipped from around L13,000bn to a broad balance as a result of the cost of money, the cost of labour and an unfavourable exchange rate," says Mr Rocco di Torrepadula. He adds that in the first two months of this year, there were more business failures than in all 1980.

With an unemployment rate of 3.8 per cent against a national average of 10.8 per cent, shortage of labour is becoming a key problem. Immigrants from outside the EC have eased it only slightly and account for a mere 0.5 per cent of the industrial workforce. A more significant influx from abroad has been foreign capital in pursuit of takeovers with British, French and German companies establishing a growing presence in the region.

The result, says Mr Rocco di Torrepadula, is the steady substitution of local entrepreneurs by professional managers. This will probably prove to be of benefit to the region's business culture since surveys show that many local entrepreneurs are struggling to restructure their businesses to the needs of global markets.

It also appears that more businesses will become available for acquisition because of generational change: the founders of many of Emilia Romagna's small and medium size businesses or their successors frequently lack children ready and willing to guarantee the future of the company.



### THE ECONOMY

## Variety provides the essence of prosperity

OPINION differs as to whether Emilia Romagna should be called Italy's workshop, its garden or its playground. The various strands of the local economy mean that all three names are justified.

Best known for its small or medium-size family businesses, the region forms part of Italy's industrial heartland, contributing over 9 per cent of the nation's gross national product. In terms of trade, it accounts for 7 per cent of total national imports and 10.7 per cent of exports.

Industry tends to focus on the biggest cities, with Bologna and Modena in particular hosting hundreds of manufacturers though only a handful of them with more than 500 employees.

Most are specialists, with packaging, motors, machine

tools and food processing equipment standing out. In packaging alone, Sasib (controlled by Mr Carlo De Benedetti), GID and Ima rank among the world leaders. Together, the three account for 67 per cent of Italy's sales of packaging equipment by value and 65 per cent of all exports.

Likewise, Modena is the centre for motor production, uniting together such famous names as Ferrari, Lamborghini and the recently-relocated Bugatti marque. Motorcycle makers are almost as strong, with Ducati and Morini both important local names.

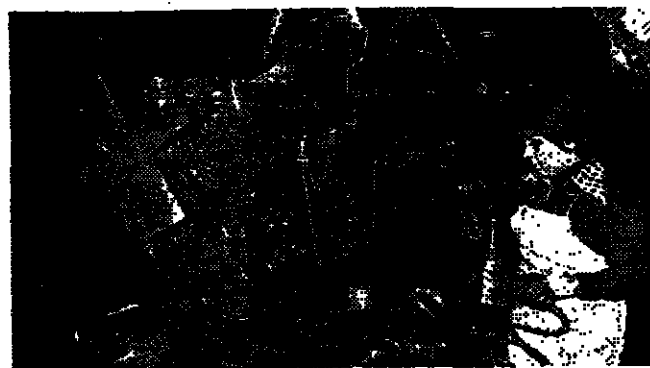
But farming is almost as important in Emilia Romagna. Benefiting from a high proportion of flat land, the region is a major contributor to the nation's agricultural economy.

Fruit and vegetables are among its main products, along with a range of wines, the best-known of which is the deep red Lambrusco originating from the province of Modena.

Livestock farming also plays a part. With food processing a major local industry, pig and cattle breeding is widespread, notably in the areas around Parma and Reggio Emilia where the ham and cheese industries are based.

Tourism and service industries form the last part of the region's economic triangle. The development of Emilia Romagna's Adriatic resorts on the back of growing consumer affluence in the 1960s was followed in the 1980s by increasing numbers of north European visitors.

Growth rates have declined



Engine and transmission assembly at Fiat Trattori, Modena

as some foreigners have moved further afield, while environmental problems, notably the Adriatic algae of 1989, have put off others. Nevertheless, tourism remains an important source of revenue and employment in Emilia Romagna.

The variety of Emilia Romagna's economy has been one of the major forces behind its prosperity in the post-war period, helping the region overcome occasional upsets in individual sectors, notes Ms Giovanna Filippini, the head of research at the Bologna Industrialists' Association.

But whether it is industry, farming or tourism, technical expertise and flexibility are common characteristics. The relatively small size of manufacturing companies in particular has been a key factor in promoting qualities like speed of response and sensitivity to the market which underpin the region's economic success.

A concentration of manufacturers in a narrow area - with light engineering around Bologna, and tile-making in Sassuolo - is another component. Specialisation has attracted talent, while intense local com-

petitiveness has spurred innovation.

But despite their tight sectoral focus, specialist manufacturers like Mandelli, the Piacenza-based factory automation group, or Marpos, the family-owned maker of precision measuring instruments for machine tools, have managed to resist cyclical downturns.

Although most such companies remain family-owned, change is under way. For while many have resisted the pressures of rationalisation and the increasing generous offers of foreign multinationals or local mergers and acquisitions (M&A) specialists, a process of concentration is undoubtedly taking place.

In the past two or three years, the industrial companies in the region have tended to be bought, rather than being buyers themselves," says Ms Filippini. Large foreign groups are often the acquirer.

There is certainly scope for rationalisation. Italy has over 50 makers of forklift trucks alone - many based in the region - which helps to explain why the sector has been gaining increasing attention from Milan-based M & A teams.

And while companies are often justifiably proud of their technological skills and specialisations, the need for additional capital to finance research, increasing distribution costs have combined with the more widespread problem of succession to make changes of ownership, or at least partnerships with bigger groups, increasingly common.

Technological prowess and the mixed economy have also been translated into material well-being. The armed guards, automatic doors and banks of closed-circuit TV screens, to be found at even relatively small local companies, reflect the danger of kidnapping that troubles many leading local entrepreneurs now that organised crime has replaced terrorism as the primary threat.

According to figures for the province of Bologna, unemployment amounted to just 4.1 per cent last year. Even for Emilia Romagna as a whole, the 5.3 per cent jobless rate was less than half the national average of 11.5 per cent.

Other statistics tell a similar story. Capacity utilisation among Bologna companies reached 81.3 per cent last year, while local inhabitants had average bank deposits of L21m

(about £9,500) on a per capita basis, according to the Industrial Association's figures for 1987.

Based on "development index" produced by Italy's Confindustria employers' federation, which takes into account such variables as income per capita, bank deposits and electricity consumption, the province ranks fifth in Italy, coming in at 130.31 against the national index of 100, while on a regional basis, Emilia Romagna comes in second after Lombardy with 122.6.

The specialisation of Emilia Romagna's producers, whether industrial or farm-based, has also spurred a lively involvement in business tourism, notably trade fairs.

The two biggest are in Bologna and Parma. The Bologna fair is Italy's second biggest after Milan, with more than 1m visitors last year. Cesena, the world's biggest ceramics fair, attracted around 100,000 visitors and 1,000 exhibitors alone last year.

Meanwhile, Parma's biggest events are the international Cibus and Technoconserva food fairs, held in May and October respectively.

Haig Simonian

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## EMILIA ROMAGNA 2

Bologna-based Credito Romagnolo is geared to local conditions

## Strong regional presence

CREDITO ROMAGNOLO, the Bologna-based bank which is the leading financial institution in Emilia Romagna, may not be Italy's biggest bank. But it has already carved out a sizeable name for itself in both fund management and deposit-taking, in which it ranks among the country's market leaders.

The bank's strength in the two areas owes much to its well-entrenched position in the regional economy, explains its chairman, Professor Francesco Bignardi.

With a wealthy, small business-based clientele, the bank has been able to mirror the rise to affluence of Emilia Romagna as a whole since the 1950s – so much so that the bank, which now has some 210 branches, around 180 of them in Emilia Romagna itself, has been able to embark on a substantial expansion programme in the past two years.

Having purchased Banca Morgan Vonwiler in Milan some years before, it has gone on to take a controlling interest in both Banca del Friuli, adding more than 80 branches predominantly in north-eastern Italy, and Isefi, a quoted financial services group.

However, Emilia Romagna remains by far the most important focus for Credito Romagnolo, contributing 82 per cent of total deposits and around 61 per cent of loan volume.

Prof Bignardi sees the bank as being well-geared to the economic conditions of its home turf.

That means responsiveness to the needs of small and medium-size business in particular, and also a close awareness of the needs of the region's tourism industry, whose growth in the 1950s and 1960s was a major factor in the bank's own expansion.

Yet Credito Romagnolo has not remained a merely regional entity. Although always relatively outward-looking as a reflection of the export-orientation of much of local industry, it has tried to tailor its services to the increasingly complex demands of small and medium-size business.

Hence the acquisition of Banca Morgan Vonwiler, which is now fully integrated into Credito Romagnolo, was an important step into the Milan-based world of foreign exchange trading and securities dealing – services increasingly being demanded by some of its business customers.

But it is retail fund management for which the bank is probably best known. Although ranking only 18th in Italy in terms of total assets, Credito Romagnolo stands appreciably higher up the pecking order when it comes to money management, with L26,286bn under its control.

However, with Italian banking now in the middle of an unprecedented phase of liberalisation, Prof Bignardi realises that Credito Romagnolo is going to have to keep on its toes if it is to retain its



Prof Bignardi: 'We don't want to lose market share in areas where we are already strong. After all, many banks are attempting to come into Emilia Romagna'

competitive edge. The challenge is all the greater given the fact that Emilia Romagna is one of the most attractive regions for expansion for many non-local banks following the Bank of Italy's decision to open the door to much easier branching last year.

Credito Romagnolo's response has been predominantly defensive, with a stress on setting up more branches in the region, rather than looking much further afield, Prof Bignardi explains.

"We don't want to lose market share in areas where we are already strong. After all, many banks are attempting to come into Emilia Romagna."

The bank has so far received the green light to open 34 more branches, with Banca del Friuli planning to set up a further 20 units of its own.

Although another 30-35 new outlets may be on the cards, Credito Romagnolo does

not have a strict overall target for new openings, Prof Bignardi explains.

Rather, the bank is keeping its options open, partly to see how its competitors act, he says.

Meanwhile, foreign expansion has been eased by the co-operation agreement struck last year with Banque Nationale de Paris (BNP).

Under the deal, Credito Romagnolo has renounced further foreign expansion beyond its current Luxembourg branch, in return for which its customers have been given full access to BNP's big international network.

The accord was part of a deal which also saw the French bank taking a 2 per cent stake in Credito Romagnolo, the maximum permissible for any single shareholder under the Italian bank's present statutes.

Hence any suggestion of a creeping takeover by the French, who are undoubtedly keen to expand their presence in Italy, is out of the question. And it will remain so even if Credito Romagnolo's shareholders decide, as seems likely, to relax the 2 per cent rule, says Prof Bignardi.

He thinks BNP would like to have "a more significant presence" in the bank, with a 10-15 per cent stake and perhaps some boardroom representation. That status would fit in with BNP's current aim of gaining strategic footholds in neighbouring banking markets without making full-scale acquisitions, even if these were possible.

Prof Bignardi clearly sees the French presence as entirely desirable, even now that the acerbic battle between supporters of Mr Carlo De Benedetti, who indirectly controls Credito Romagnolo, and Mr Gianni Agnelli's Fiat group is buried.

Rather, the alliance with BNP offers not just a widespread international network, but also access to additional funds, should Credito Romagnolo wish to make more takeovers.

In those circumstances, its French partner would come in handy both as a wealthy direct shareholder, and possibly in an independent capacity as a co-acquirer too, with BNP perhaps taking a direct stake of its own in the target bank.

Credito Romagnolo's alliances with strong partners will probably not end there.

With bank-insurance links becoming steadily more important in Italy, the signs are that Fondiaria, the big Florentine insurer, may also buy a share in the bank in due course.

Fondiaria already has a small holding in the Florence savings bank, and is now keen to secure an exclusive marketing deal with Credito Romagnolo to sell policies via its branches.

Though Fondiaria may start with just 2 per cent, like BNP, it too is thought to want more eventually.

Heig Simonian

## PROFILE: Romano Prodi, former president, IRI

## Cures for the ills of industry

HAVING returned to his native region after eight years as president of IRI, Italy's largest state holding group, one of

Emilia Romagna's most famous sons has for the past 15 months been applying his extraordinarily discerning eye to its strengths and weaknesses. Romano Prodi finds much to preoccupy him, and if the future of Emilia Romagna is worrying one of Italy's best economists turned industrialist, then Italy ought to be worried.

Mr Prodi has been studying it all with that ironic, detached academic eye which is again delighting students now that he has resumed teaching at the University of Bologna. He also devotes much time to Nomisma, the research consultancy in Bologna which he helped to found, and which is now Italy's largest in applied economic research. He enjoys a direct window on the business world as a director of both Unilever and IBM International.

The Emilia Romagna which has been put under the Prodi microscope remains one of the country's richest and most industrially and agriculturally productive regions. Its small and medium size businesses such as those manufacturing agricultural equipment, ceramics and textile garments are some of the brightest jewels which helped to give the Italian economy its prosperous sparkle in the 1980s.

Mr Prodi, however, fears that they have difficult months and years ahead. "In the 1980s we had a high level of investment and productivity increases which compared with Japan's. Unfortunately, however, product innovation has been low and companies in the region are struggling with high labour costs."

"Managements are not thinking enough about product innovation. They are concentrating on cutting costs and looking for new markets."

He singles out the garment industry, centred on Carpi, as a particular source of concern. "All possible new technologies have been applied but the cost of labour remains a very high proportion of production costs. There are many companies that are badly placed strategically. They are too small to reorganise themselves, as the Germans have done, for example, by moving production off-shore to cheap labour areas."

In general, says Mr Prodi, the region's small and medium size businesses need "to advance the frontiers of their products" with a great deal more research and development effort. He believes that

more than the one scientific park being planned for Bologna is needed to help improve the rate of product innovation in the region.

The former IRI president laments the absence of national or regional policies designed to help the small and medium size business sector. A law currently in parliament which offers a range of financial and technical assistance "is potentially helpful", he says.

Another problem clearly identified by Mr Prodi is a "dramatic labour scarcity" in Emilia Romagna. The application of national wage levels in the Mezzogiorno coupled with the growth of financial assistance of virtually every kind has choked off the impulse to emigrate which helped to satisfy the north of Italy's manufacturing requirements in the 1950s and 1960s.

"There has to be some wage differentiation or otherwise there is no real possibility of a relocation of labour," says Mr Prodi. In the meantime, substantial north African immigration is supplying a workforce for low-paid, low-skilled jobs. Nevertheless, Mr Prodi believes that the labour shortage will only worsen because of the region's extraordinarily low birth rate – one of the lowest in Italy's is one of the lowest in Europe.

"This is why I should like to see more immigration, preferably from eastern Europe where they have a high level of basic scientific skills which will be lacking in Bologna."

Signs of racial tension

"Many companies are badly placed strategically. They are too small to reorganise"

between the native population and north African immigrants have been growing in recent months, but Mr Prodi believes that for the moment there is nothing to be unduly worried about. "Immigration provokes a reaction from the poorer members of society, but I don't think that the city's problems are worse than they were in the 1970s."

Nevertheless, a rash of murders, including the deaths of two carabinieri, has of late sparked a national inquiry about the social health of what has long been regarded as one of Italy's model cities.

For most of the post-war period Bologna has been governed by the Communist party



Prodi: 'Managements are not thinking enough about innovation'

(now the party of the Democratic Left) and seen as an anomalous mixture of left-wing politics and entrepreneurial capitalism. The question has been asked whether the national decline of the Communist party, culminating in its recent change of identity, has led to a collapse of civic values in Emilia Romagna's leading city.

Mr Prodi believes that much of this speculation is overblown since Bologna's commitment to communism has always been unusual. In the first place, he says that Emilia Romagna's communists are extraordinarily moderate by national standards and, indeed, have played a restraining role at national level. Bologna has, however, been better run with a higher level of social provision than many other large Italian cities, he acknowledges.

Secondly, "the entrepreneurial spirit runs so deep in Bologna that communism has been no obstacle to social and economic development. The unions here understand the need for a good balance sheet," he adds.

Mr Prodi says that he has no desire to return to national pol-

itics (he was a Christian Democrat minister for industry in the late 1970s). "This is a creative phase in my life which is like a good retirement."

He is deeply preoccupied now about the state of the national economy, primarily because of the size of public deficits and of public debt. "The Italian economy remains more isolated and different from others in Europe than I had hoped." He believes that most leading Italian companies are struggling to adapt to European competition because of the malfunctioning of some basic fundamentals.

He remains convinced that a major privatisation programme is needed for the public sector – he had only limited success in fully privatising some IRI subsidiaries – and that the working of financial markets has to be improved and the role of Italian banks developed. "We cannot have the worst of all worlds: without a financial system which works in a comparable way to the UK and without a stable system for long-term ownership like you find in Japan and Germany."

John Wyles

The tile industry is centred around Modena and Reggio Emilia

## Consolidation continues

FROM BEING banished to bathrooms and kitchens – where they largely remain in the UK and Scandinavia – ceramic tiles have become an increasingly important aspect of the fashion-conscious household.

So much so that the Italian tile industry, largely concentrated in the small town of Sassuolo near Modena, generated sales of just over L6,000bn (£3.8bn) last year. Around half of that total was exported, with foreign turnover rising by almost 4 per cent to L2,589bn in 1996 from L2,500bn in 1995.

Sales abroad by members of Assopiastrelle, the Italian tile-makers' association, accounted for about 14 per cent of Italy's total exports by value last year.

Germany is the main foreign

ics companies, almost all of which remain family-owned, date back much before the Second World War.

Only after 1945 did the industry gradually start to rationalise. That process continues today. But although Assopiastrelle's membership fell from 509 in 1975 to 362 a decade later, the drop only partly reflects occasional crises in the business, as in the early 1980s.

The main reasons for the continuing consolidation process are rising costs, notably for energy and labour, and new technological challenges, which have pushed up the need for research and development spending.

Iris and Marazzi, both Sassuolo-based, are the two biggest companies in the business. Marazzi had sales of L470bn last year, while Iris's turnover last year was L356bn.

However, direct comparisons are complicated since the two groups have chosen different growth strategies.

Marazzi has set up factories abroad, with its works in Spain and the US about to be complemented by a new plant in Turkey.

By contrast, Iris, which employs 2,700 workers and exports around 70 per cent of its output, has opted for vertical integration. Among the companies in its group is Mafel, which supplies clay and other raw materials.

Typically for Emilia Romagna, the growth of one industry in a narrow region has stimulated the development of a variety of specialist suppliers and manufacturers in its wake. Hence Italy is not just the world's top tilemaker, but also its primary source for tile-making equipment, with many equipment companies also being based in and around Sassuolo.

That means Assopiastrelle's members and their suppliers have often been technological trail-blazers too, as in the case of the single firing process for tiles, which opened the way to a host of new, heavy-duty uses for ceramic products.

Rather than multiple firing, in which tiles are baked, painted, and then re-baked at around 900 degrees Celsius, single firing involves a one-off

baking process at around 1,200 degrees.

That produces a much tougher, harder-wearing product, which is increasingly being used for heavy duty applications, as in flooring for department stores, subway systems or airports, where attractive appearance must be combined with proven durability and the ability to withstand marked temperature changes.

Although it has by no means replaced double firing, which still accounts for around 20 per cent of the industry's output, single firing has undoubtedly been the most important individual contributor to the tile-makers' growth.

So much so that a variety of specialist products – notably facing tiles for buildings and the extra heavy duty granite or

marble-like "porcelain stoneware" goods – are now competing head-on with traditional stone products and are being guaranteed for up to 100 years.

Meanwhile on the domestic front, upmarket tiles, which are still produced by double firing for the maximum lustre, have turned increasingly into fashion items.

Many of Assopiastrelle's members now produce special lines of "designer" tiles, with top Italian fashion names such as Valentino turning their hands to the design.

Though still representing a relatively small slice at the very top of the market, many manufacturers expect such specialist products to grow in importance over the years.

Heig Simonian

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## EMILIA ROMAGNA 3

San Marino, the world's smallest republic, fears the impact of a united Europe, writes John Wyles

## Struggle to preserve a sense of identity

IT HAS ambassadors accredited to the European Community, the Council of Europe and the United Nations; it is negotiating a form of association with the EC. Yet it has no central bank, very few economic statistics and nearly half its citizens live abroad.

In short, San Marino is a delightful anomaly, although one would be ill-advised to make such a comment within earshot of the Sanmarinese, who have prospered greatly in recent years from the nearly 300,000 tourists a year who flock to set foot in this tiny republic. The tiny nation state, perched solidly atop Mount Titano, 25 kilometres inland from Rimini on Emilia Romagna's east coast, is there as the world's smallest republic in a sense because it has always been there.

Its longevity owes much to a seemingly eternal desire for independence, a nearly permanent disinterest in the affairs surrounding Italy and a strong sense of national identity. Though clearly under threat in this era of mass culture, this survives partly from a very particular history and partly, one suspects, from a sentimental attachment to social and political traditions. Medieval institutions still rule through the 60-

member Great and General Council, whose chief executive, the Captain Regent, changes every six months.

Sanmarinese - about 20,000 of them - are scattered around the world but they retain their citizenry and send representatives home every year for a gathering of the

**Medieval institutions still rule through the 60-member Great and General Council**

overseas communities.

Legend has it that San Marino was founded as a religious community in the fourth century by Marino, a Christian stone-cutter from Croatia, whose healing powers and saintly life subsequently earned him canonisation. By the mid-13th century it was operating its own political institutions and its citizens lived according to a rigorous

legal code which tended to favour the dispossessed and penalise the rich and powerful.

With its command of a strategic position unequalled in the region, the Sanmarinese have fought off the predatory ambitions of local bishops, but they also succumbed for 50 years to rule by the Borgias, and were placed for a time under the dominion of the Holy See. Napoleon left them alone, as did the Germans but the British mounted four bombing raids, despite the republic's neutrality in the Second World War, which killed 63 people and prompted the subsequent payment of £30,000.

The outrage is commemorated by a rather beautiful sculpture which stands outside the republic's tourism development office which, under the watchful direction of Ms Edith Tamagnini, makes a key contribution to ensuring the lucrative growth of the hillside of the republic's economy. Most of the visitors are daytrippers and the vast majority are Ital-

ians who take the winding road up Monte Titano to enjoy the spectacular views and the slightly better prices for a range of consumer goods than can be had in surrounding Italy.

Many of the public buildings date from a reconstruction phase in the 19th century, the most attractive being the Palazzo Pubblico where the republic's 60 councillors meet. The current strategy for tourism is to promote longer stays through the development of festivals and congresses - there is now an annual gathering of experts on AIDS, as well as a Vespa owners' rally and an international photographic festival. Sporting events - notably a Formula One grand prix and an international tennis tournament - are also exploited as a means of tourist promotion.

Quite how important tourism really is for the 23,000 residents of the 60 sq km republic can only be guessed at. The absence of any official data on

gross domestic product does not appear to cause any great headaches for Mr Clelio Galassi, secretary of state for finance and the budget. "We do succeed in creating short- and medium-term economic plans even without key data," he says.

The state itself is the largest employer, giving work to 3,000 of the 23,000 inhabitants - 31 per cent of the employed workforce. This ensures that public administration soaks up 70 per cent of annual spending which in 1991 is forecast at L301.7bn. Compared with Italy, the republic's budgetary situation is very healthy indeed, recording a surplus of just over L6bn in 1990 thanks to an admirable control on the growth of public spending. Direct and indirect taxes account for only 12 per cent of revenues since the regime is a benevolent one.

Per capita annual incomes among public employees averaged L24.1m in 1989 and L30.3m in the private sector. A directly employed worker in

San Marino loses only 7.3 per cent of his gross income in direct taxes and social security contributions, compared with 23 per cent in Italy. Labour costs for employers are also significantly lower.

The fact that 57 per cent of the state's income derives from customs duties poses something of a problem of declining revenues for the future because of the republic's interest in securing a free trade agreement with the European Community. But the hope is that a larger and broader industrial base will be stimulated by such an agreement and will generate compensating revenues. With the exception of textiles, "San Marino lacks a real production base because of its small workforce, but through training programmes we hope to attract high technology services companies," says Mr Galassi.

The minister is a member of the Christian Democratic party which currently makes up the San Marino government in

coalition with the Partito Progressista, the former Communist party which changed its name well before its Italian sister. Independent it may be, but San Marino depends on Italy for a range of services and has had to impose restrictions on financial flows into and out of the republic so that they can

**'We succeed in creating economic plans even without key data'**

be scrutinised by the Italian banking authorities.

San Marino has also absorbed a great deal of Italian political culture. The republic had its own Fascist period before the Second World War and although Mr Galassi maintains that the San Marino DC is not affiliated by the factionalism of the Italian party, it has the same inter-class popular base.

Fearful of the impact of a uniting Europe on its sovereignty and sense of identity, San Marino has recently created its own university and later this year will launch its own television station. Ms Fausta Morgantini Rossini, the minister of education and culture, would like some of the broadcasting time to be dedicated to an open university, along the British lines, but the financial implications of this are still being studied.

Per capita education spending is higher than in Italy and the curriculum is broadly similar - it has to be because a significant number of Sanmarinese go to high school in nearby Rimini. Ms Rossini says that the products of the republic's school system are over-qualified for the local economy, which is another reason for seeking to attract high technology production activities.

Lack of opportunities may be one explanation for some of the republic's sharply defined social problems. There is a drugs culture among a minority of its youth while adult neuroses have manifested themselves in one of the highest suicide rates in Europe. "It is not very easy to live in this small community. It is rather claustrophobic," says Ms Rossini.

The co-operative movement is being reorganised

## Period of transition

"EMILIA ROMAGNA was the cradle of the co-operative movement in Italy," says Lanfranco Turci, chairman of the Lega Nazionale Cooperative e Mutue, the "red" co-operatives' league. Born in the region's Modena province, Mr Turci grew up immersed in Emilia Romagna's co-operative culture and imbued with communist traditions.

Chairman of the Emilia Romagna regional council from 1978 to 1987, Mr Turci was elected regional councillor on a Communist party ticket at the age of 30 in 1970. He became the Lega's chairman in May 1987 and has since been guiding it through a period of radical change.

"We are passing through a transition phase in which the movement is being reorganised. Concentration is leading to mergers. Members are becoming increasingly aware of the need for a business approach in their activities," notes Mr Turci.

The cradle of co-operatives in Italy, Emilia Romagna is now in the vanguard of the changes that are preparing the movement for the next century. Growth is particularly strong in the tertiary sector,

not least in finance where Bologna is the capital.

The Lega's Banec bank and Unipol insurance company have headquarters in the city. Italy's sixth largest insurance company, Unipol is the only co-operative venture quoted on the stock market. In conjunction with Visa, Banec and Unipol are issuing a credit card Unicard/Visa.

Stock market quotation, banking and credit cards are far removed from the Lega's early operations in Emilia Romagna, just over 100 years ago. "The movement started with agricultural workers joining together to avoid exploitation," says Mr Turci.

With a large area being part of the fertile Po Valley, agricultural workers in Emilia Romagna were more fortunate than those elsewhere in Italy. But, nevertheless, hardship was widely felt among the brackish farm labourers and by

many small farmers. Co-operatives helped day labourers to sell their muscle power, and farmers to sell produce, purchase seed and materials and obtain financial assistance.

Local political traditions played an important part in the growth of the co-operative movement in Emilia Romagna. "An enlightened middle class encouraged the creation of co-operatives. They fitted into a regional model of municipal socialism that was reformist rather than anarcho-syndicalist," explains Mr Turci.

The fortunes of the region's co-operatives were closely linked to the political colour of government in Rome. "Fascism was the rule under Giolitti at the beginning of the century. But we suffered under authoritarian and conservative administrations, particularly fascism which placed a sharp brake on the movement," says Mr Turci. However, Emilia

Romagna's co-operatives moved rapidly ahead when the brake was released at the end of the war.

"When the communist leader Palmiro Togliatti visited Reggio Emilia in 1946 he underlined the middle-class contribution to the region's redness. This has become increasingly true for the co-operatives, which are much more than proletarian alliances. Their memberships include a large proportion of middle classes from all professions, trades and jobs," says Mr Turci.

Indeed, the region's co-operatives have a noticeably white collar look. Nearly one-third of the 50,000 employees of Lega co-operatives in Emilia Romagna work in services and a further 8,000 in retail distribution, either in consumer or service co-operatives, like transportation, social services and data processing, are nearly



Lanfranco Turci: 'concentration is leading to mergers'

as numerous as in industrial/producer co-operatives, where about 31,000 are employed.

With only 9,000 jobs, less than one-sixth of its total, agricultural co-operatives are no longer in the Lega's front line. Nevertheless, their aggregate annual turnover of about L4,000bn accounts for around one-third of the Lega's total

turnover in Emilia Romagna.

The situation is different in the region's Conf co-operative, the "white" organisation that has Christian Democratic political affiliations. A little more than one half of the 20,000 jobs in the organisation's co-operatives in Emilia Romagna are in agriculture, with this sector generating more than three

quarters of total turnover of about L4,500bn.

"The 'white' co-operatives in the region continue to rely on the past," remarks Mr Turci, acknowledging that they nevertheless remain a strong economic and social force. However, the Lega's "red" co-operatives are considerably more powerful, reflecting the political balance in the region.

Together, the 4,300 co-operatives of the Lega, Conf co-operative and the very small Associazione Generale Co-operative provide employment for 10 per cent of Emilia Romagna's workforce and generate more than 20 per cent of its added value. Co-operative business is big business in the region.

But it is not evenly spread. The northern provinces of Piacenza, Parma and Ferrara and Forlì province in the south are less co-operatively-minded than Reggio Emilia, Modena, Bologna and Ravenna.

Some of the region's co-operatives enjoy wide - even international - recognition. Ravenna's Cooperativa Muratori Cementisti (CMC) and Carpi's Cooperativa Muratori Braccianti (CMB) are well-known in the construction sector in many parts of the world, particularly in developing countries where their know-how has helped to erect factories, dams and other infrastructure works. Wines from the Cantine Riunite enjoy good sales in export markets. And Sacmi's tile-making machinery has 40 per cent of the world market.

Not all the region's co-operatives have enjoyed such success. Last year Aica, a co-operative serving the agricultural sector, was put into liquidation. "It was symptomatic of the serious problems that exist in a sector where major restructuring is needed," Mr Turci says. He notes that under-capitalisation is a generalised difficulty, which requires legislative changes to put it right.

But he is confident that Emilia Romagna's co-operatives will meet today's challenges. "Co-operatives fit well into the region's fabric of small and medium-size enterprises. There is well-balanced development throughout the region that is helped by well-administered local authorities. Though they are 'red', the Lega's members show the best aspects of entrepreneurial spirit."

David Lane



Growth market: Parma is the region's centre for a variety of foods - not just its world-renowned hams and cheeses

## THE FOOD INDUSTRY

## Culinary capital eyes expansion

NICKNAMED "food valley" by the locals, the area around Parma, the second biggest city in Emilia Romagna, is as renowned for its food-related businesses as it is for the excellence of its cuisine.

Just as Bologna is the region's uncontestable industrial capital, Parma is its centre for a variety of foods, with its hams and cheeses its most familiar export to the outside world.

But while ham and cheese production is largely run by co-operatives, Parma's two other leading food groups, Parmalat and Barilla, are both limited companies.

Both were privately-owned until last year, when Parmalat, the smaller of the two, floated some of its shares on the stock exchange as part of a complex recapitalisation that brought in not just small private shareholders in Italy, but a number of big international institutions as well.

Still majority-owned by the Tanzi family, Parmalat had sales of L1,020bn last year, a figure it expects will rise to L1,200bn in 1991.

Best known for its dairy products - and especially for the long-life milk to which it has given its name - the company, which is based in Collecchio, a small town to the south-west of Parma, has been on a rapid expansion drive.

Although the bulk of its production is in Emilia Romagna, where some 1,000 of its 1,300 Italian employees are based, Parmalat also has plants in a number of other locations. Last year's acquisition of new operations in Brazil, where its workforce has now more than tripled to around 2,000, is likely to be followed by the purchase of new activities in Spain and possibly eastern Europe this year.

Just to the other side of Parma lies Barilla, Italy's biggest pasta maker, whose mod-

ern plant is a landmark for drivers on the busy Milan-Bologna motorway. The company, founded by Pietro Barilla in 1875, remains strictly private in more ways than one.

With 6,500 employees, almost all in Italy, and sales of around L2,400bn last year, the company is now back in the family's hands after a brief period of ownership by W.R. Grace, the US multinational, run now by Pietro Barilla,

Exports may rise following a landmark US decision in late 1989 to allow the import of Parma ham for the first time

who is assisted by two of his three sons, the company's emphasis on security can leave something of a sour taste for first-time visitors that not even its biscuits and cakes can sweeten. Whether naturally cautious, or just anxious about kidnapping and organised crime, the group's security is more akin to a high-tech defence plant than an overgrown bakery.

A warmer welcome can usually be had at the region's two leading food co-operatives. Based in the centre of Parma, the Consorzio del Prosciutto di Parma groups together 215 makers of its renowned ham

Though it comes as a surprise to some, Parma ham is raw, gaining its fine taste from an age-old salting and maturing process that dates back to at least 1500 and which can

last as long as three years. Most Parma hams sold in the shops tend to be a little younger, being sold after 12-18 months of carefully-controlled hanging.

Constant vigilance during the maturing process is also a feature of the region's cheese industry and especially of the Reggio Emilia-based Consorzio del Formaggio Parmigiano Reggiano.

Its 860 members, each of

which often comprises a number of separate dairy farmers, lie behind the production of Italy's most prestigious - and most expensive - cheese.

According to Senator Gianpola Mora, the co-operative's chairman and a cheese maker in his own right, its members have to obey even stricter standards than those regulating the ham co-operative.

Annual sales of Parma ham have risen to around L1,400bn, and the industry now provides jobs for some 4,000 people, according to the co-operative's Ettore Grisendi.

While most members make around 50,000-60,000 hams a year, the biggest can go up to 400,000 annually. Exports, which account for around 19 per cent of production, may be set to rise following a landmark US decision in late 1989 to allow the import of Parma

ham for the first time. Previously excluded under a law forbidding the importation of all raw foodstuffs, the hams were finally made the subject of a special law to allow US consumers to savour the taste.

Meanwhile sales of Parmigiano Reggiano, which is the superior of the two categories of Grana cheese produced in the region, have also risen strongly, reaching around L1,200bn last year. In volume terms, the co-operative sold some 2.8m of its huge, 33-36kg circular slabs of cheese in 1990.

The existence of strict, government-imposed standards, supervised by the co-operatives, has helped both to foster the growth and international reputation of their products, it is argued.

Ham producers have to observe strictly codified rules about what type of feedstocks are used, when animals should be slaughtered and how the hams should be treated.

To bear the seal of a true "Parmigiano Reggiano" cheese, the milk has to come from a strictly defined part of the region. The cows used can only be fed on specific products and graze on certain pastures. Total milk consumption was 1.2m tonnes last year, representing some 18 per cent of Italy's total milk production.

Having such a thirsty neighbour has proved a long-standing problem for Parmalat. For the relative scarcity of dairy farming in Italian agriculture and the strong demands of the cheese industry mean that Parmalat has been increasingly obliged to look beyond regional, or even national, borders for its basic raw material.

With Italian milk production relatively limited, fleets of tankers now bring in supplies on a daily basis from as far afield as Bavaria and Normandy.

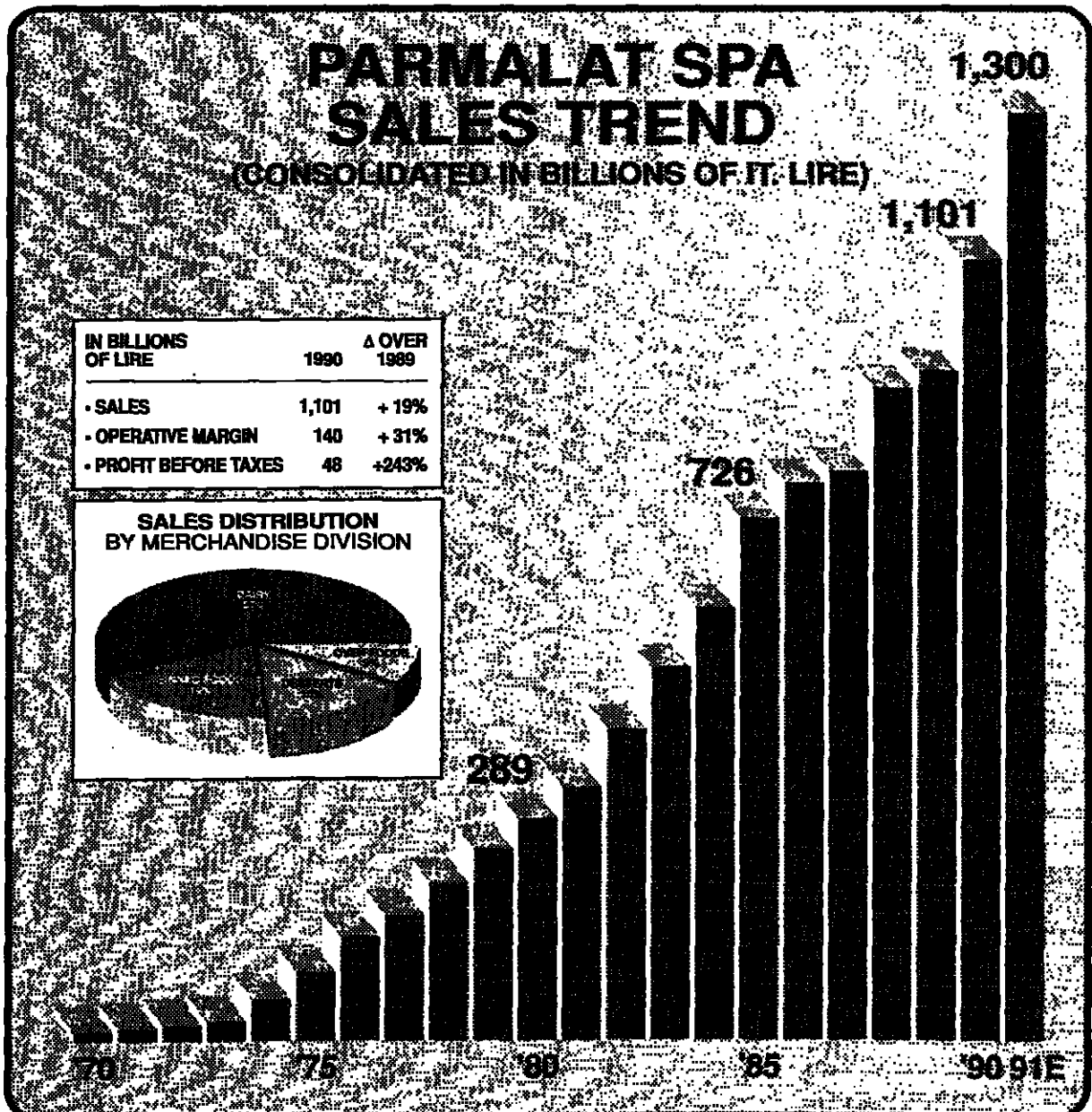
Haig Simonian

## parmalat finanziaria spa

HEAD OFFICE IN MILAN - C.SO ITALIA, 15 - CAPITAL STOCK IT. L. 713,210,300,000

## THE COMPANY CONTROLLING 75% OF PARMALAT SPA

Parmalat S.p.A. and the companies which it controls represent one of the most important groups in the dairy-food sector in Italy and in many other countries, of which Brazil, Portugal, Spain, France, Germany, the USA, and the USSR.



THE GROUP IS MADE UP OF 33 COMPANIES, 25 FACTORIES, 4,500 EMPLOYEES, 200,000 SALES POINTS, 19 TRADE MARKS, 127 PRODUCTS.







## ARTS



A magical, mysterious city: but behind the facades of Prague lies a terrible decay

## Another spring in Prague

Colin Amery opines gentle care, not roaring redevelopment

It was time for another Prague spring. Earlier this month President Havel's transients played from the high windows of Prague Castle to welcome, not just the Prince and Princess of Wales, but also the delegates to the European Forum of the World Monuments Fund and a huge gathering of international business leaders. Czechoslovakia is miraculously poised to recover from 40 years of repressive communism. The new government is ready to turn the spring into summer.

But it needs international help to ensure a creative and distinctively Czechoslovakian flowering. The World Monuments Fund (sponsored by the Samuel H. Kress Foundation) deliberately coincided its conference with the Prince of Wales's Business Leaders Forum in order to discuss the crucial subject of historic architecture as a resource for development. The combination of "history" and "development" may have an ominous ring, but it identifies an area that will undoubtedly be a substantial resource for the future.

Papers read at a conference and the catalytic effect of international meetings obviously have their uses, but the most moving and powerful influences are the Czech monuments and buildings themselves. It is their treatment that will determine the quality of life for both natives and tourists in the future.

The cultural fabric of Czechoslovakia has a rare density that is curiously enhanced by long years of neglect. There can be no doubt that visitors

with a sensitivity to the gentle movements of history and a penchant for the picturesque qualities of decay should pay frequent visits to Czechoslovakia now. Prague's historic centre enjoys elaborate protection but it is bound to change. The prophetic vision of Libusa (the primal "mother" of Bohemia) — "I see a city whose glory will reach the stars" — has already been fulfilled. What can match the present view of Prague from the Charles Bridge? By day it has sustained the vision of a city with real countryside on its edges in the shape of wooded hills. By night the absence of sodium orange lighting and advertising signs preserves the childlike sense of a magic city — a place of safety and mysterious beauty.

Behind the facades of Prague lies terrible decay. Great palaces of superb architectural quality are empty or used for storage. The Fischer von Erlach Clam Gallas palace in the centre of the old city houses archives in rooms where the silk hangs from the walls in fatters and ancient coal stoves pollute the air. The need to upgrade both housing and hotels will change the nature of the historic centre. Perhaps the worst threat to the city, which is so wonderfully absent in parts of the city.

You can enjoy complete silence in parts of Prague. There are still chestnut trees by the river and swans nesting in riverside gardens. Prague's churches have the advantage of enjoying an immunity to the aesthetic depredations that followed the second Vatican

council. Altars have been left where they belong and there is a complete lack of the visual clutter of notice boards, souvenir stalls and coffee bars that so diminish the significance of many Anglican churches. May God preserve Czechoslovakia from Soundguides, son et lumière, shops, theme parks, McDonalds and Disneyland in all its forms.

There is already a visible danger to be seen in the poor quality of the new hotels being built on the outskirts of the old city centre. The Atrium Hotel is quite simply horrendously ugly while The Diplomat may be comfortable but it offers nothing to the architectural patrimony of this city. No one doubts that the city needs more hotel beds and better food and service, but why rush ahead to build modern monster hotels when there is time to sew hotel rooms gently into the historic fabric?

The lack of funds and the uncertainty over many ownership issues in Prague probably mean that the city can be saved from an insensitive capitalist blitz. Gradually a sense of the extraordinary value of the patrimony is growing and I sensed a certain Czech caution, in the face of the worst threat to the city, which is so wonderfully absent in parts of the city.

In the countryside Czechoslovakia is full of neglected and unknown places. There have been visiting doctors of abandoned, and empty, country houses and monasteries that are of such beauty and

romance that I hesitate to draw attention to them at all. The Baroque country house reaches its apogee in Bohemia and the Czech Republic. Many will be the subject of the complex restitution laws which will allow families to claim back properties confiscated by the communist regime since 1948. If families do not claim, and you have to have Czech nationality — the government is considering auctions allowing Czech nationals the first refusal.

Will there be a rash of hotel conversions, conference centres and flats? There is no state money for the establishment of posadas or padrones on the Portuguese or Spanish models. Plans are afoot for an English effort to list and catalogue the country houses to establish a system of private ownership and contents which are already in museums and galleries. Families have some restitution rights over these treasures too, and European stereotypes are actively snuffing out around to secure significant sales.

Czechoslovakia has the chance to adopt a gradual and careful aesthetic plan for the maintenance and re-use of its historic patrimony. It must be able to learn from mistakes and successes of other western European countries. The restitution of land remains an almost insoluble problem after decades of collectivisation — and in many ways land is the key to the future planning of the country. Spring has arrived, but there is work to do to ensure a careful harvest.

## Timon of Athens

### COLISEUM

Stephen Oliver (b. 1950), whose two-act *Timon of Athens* was given its first performance by English National Opera last Friday, is a composer of immense experience, above all in the theatre. His work-list, which is already of 18th-century length and variety, numbers more than 40 operas as well as the West End musical *Blondel* and much music for plays and films.

Oliver makes his own librettos; this should come as no surprise, since he is also a wordsmith of enviable fluency (regular listeners to Radio 4's *Stop the Week* always prize his contributions, as much for cultivated breadth as for glancing merrit). He is a practical composer, trusted by performers, who has demonstrated that he lives in the real, rather than an idealised, world of theatre.

So the questions one poses about *Timon*, an inert mass of undramatic notions ill-realised for the lyric stage, must inevitably belong to the realm of autopsy. How on earth could this composer have given us this opera? And why on earth did he want to? Nothing that happens on the stage or in the pit of the Coliseum explains why Oliver should have chosen to adapt the play — "the bitterest and most negative of all Shakespeare's tragedies", according to the New Penguin Shakespeare *Timon* editor — for operatic purposes.

On the simplest level, I fear, his music adds nothing to its experience, and at times seems positively to obfuscate our understanding of it. (The change to the ending seems entirely unprepared for by earlier events and characterisation.)

Timon snatches Alcibiades' knife to kill himself, botches it, and in an act of charity Alcibiades finishes him off.)

There is already a large body of Shakespeare-adapted operas of which the same can be said — Reinmann's *Leor*, which ENO were performing earlier in the season, is one of them, although unlike this *Timon* it gives off a superficial theatrical energy by belabouring the audience's ears with ferocious outbursts of sound-assault. It's sad, though, and indeed surprising that Oliver has all too evidently failed to learn from the mistakes of others.

This is by no means the most inept new opera ENO have mounted. The cutting-down and conflation of characters shows some skill; so too the balancing of solo and ensemble voices (of particular relevance in the first act, which closes on Timon's banquet of stones), and the assort-

ment of vocal styles for an all-male cast with the soprano-register contrast of two boy-soprano servants.

But there is, for most of the time, a sore lack of variety in Oliver's musical language. It's specially odd that he should frame so much of his argument in that all-too-familiar post-Bergian non-tonality, clothed in percussive gestures and sometimes nodding in the direction of the more lapidary Tippett, that now reeks of a particular kind of post-war modernism.

The moments of relief — which come with the music for the lesser Apemantus (attractive unison lines, decorative in scoring) and later for the quartet of faithful servants (Bach-like in chorale shape, with suggestions of a consort of viols in the accompaniment) — only serve to point up the starting anonymous greyness, in vocal and instrumental sound, of the main musical text. Given all

this, and the painfully slow gait of the second act, the impression is of a short opera (two hours 40 minutes with interval) that is agonisingly long, and becalmed in direction and purpose.

The history of opera is littered with critical pronouncements of first-night disaster subsequently and triumphantly reversed. I shall temper the finality of my disappointment with Oliver's *Timon* by wondering whether a more helpful production in a more intimate theatre might not reveal qualities so effectively hidden on Friday.

It was not a performance to give much cheer to believers of word-audibility. Was this the composer's fault, the conductor's (Graeme Jenkins), or the fact that the stage design (a lowering grey box of South Bank-style concrete surface) by Chris Dyer appeared to send words and vocal tone straight up into the flies? The modern-dress production could be categorised, unkindly, as being in Graham Vick's "chair-shirt" mode: no frills, no concessions to pleasure, and a few strokes of inspiration along the way.

The evening's saving grace was the tireless devotion of the large cast, headed by Monte Jaffe (a generously unsparring Timon). Gregory Yurish (a fiery Alcibiades), and Keith Latham (Apemantus), with notable smaller contributions from Nicholas Folwell, Geoffrey Pogson, and Quentin Hayes. But what a London entertainment; and, from this composer, how unexpected!

Max Loppert



Monte Jaffe (left) and Geoffrey Pogson

## Dumay & Pires

### QUEEN ELIZABETH HALL

The virtues of Augustin Dumay and Maria Joao Pires are well matched: Dumay's aristocratic, immaculate violin playing fits nicely with Pires's thoughtful, unselfish, and somewhat unassuming piano. In parts of the sonata literature — Prokofiev or Bartok, say — their refreshing lack of aggrandisement might have been less appropriate, but in a memorable programme of Brahms, Mozart and Beethoven at the Elizabeth Hall on Saturday the partnership was perfectly at home.

Dumay's silvery, intimate tone belies his large physical presence; he is towered over by Pires, yet matched her sense of articulation, quick-witted figuration, elegant bass lines — with his own serene command. His playing is finished in the best sense of the word: every phrase has a purpose, a beginning, middle and end, so that the first movement of Brahms's D minor Violin Sonata could be built in a series of finely modelled curves, and the dovetailing of the instruments, tonal and melodic, was a delight throughout the work.

In Mozart's B flat Violin Sonata K.378 Pires's supreme assurance led the way, and Dumay's willingness to be led, keeping his playing free from attention-seeking gestures and never over-egging his treatment of the melodies, was admirable. In the Kreutzer Sonata the situation was reversed, yet even here Dumay avoided unnecessary clamour. There was no staid and delivered virtuosity in the opening movement, just a marvellous inter-change of ideas between the partners; a magical shaping of each variation in the second movement, and figuration of

light-fingered delicacy in the finale from both players. None of it was underpowered; the sonata was perfectly poised between classical restraint and romantic impulsiveness.

The previous weekend Ms Pires had given a solo recital which affirmed the same sterling qualities in her playing, her fastidious attention to detail and imaginative control of phrase length and rubato. Her programme contained just a single miscalculation. It was a mistake, surely, to end a programme of sonatas by Beethoven and Mozart with Debussy's *Pour le Piano*, especially in a performance such as this, which, for all the grave beauty of its Sarabande, couched the sonatas very much in mid 19th-century terms. It was as if Debussy were being filtered through the sensibility of a 19th-century pianist, and a tiny piece of that composer added as encore suggested that Pires would be fascinating in such repertoire.

Everyone would surely have gone home satisfied after versions of Beethoven's Op 31 no.2, its first movement a tantalising haze of atmospheric pedal and gradually clearing textures, and Op 109, with unaffected eloquence and a joyous outpouring of energy for the scherzo, together with Mozart's K.350 in C and K.388 in B flat. As in her recital with Dumay, Ms Pires's instinctive unfolding of Mozart was startling, just because of its faultless judgement; every element of her playing, its weight and range of colour, choice of tempi and dynamics, was faultless, and the product of musicianship of the very highest order.

Andrew Clements

## Bach's B Minor Mass

### SYMPHONY HALL BIRMINGHAM

The new Symphony Hall in Birmingham was designed with the valuable facility to modify its acoustics. The opening concerts, well received, were reserved for a full-size orchestra and, now that the echoes of those have died away, it seemed a good idea to go back and see what the hall would make of something quite different.

As well as providing a home for the City of Birmingham Symphony Orchestra, the hall will play host to visiting performers. On Friday it welcomed the Academy of Ancient Music under Christopher Hogwood, who gave Bach's B Minor Mass. There were just under 40 in the chorus, so this was much as four soloists, dipping the sense of inward concentration built up in the preceding movements.

Elsewhere the solo singing had much to recommend it. Dawson and Emma Kirkby made a marvellous contrast, dipping the sense of inward concentration built up in the preceding movements.

Under Hogwood's direction the performance was direct and dance-like, without the need to hit heavily down on first beats, as Leonhardt or Harnoncourt is apt to do: a sensible compromise, as in other areas. What, I wonder, would Bach have done with the B Minor Mass, if he had performed it in a venue as big and as splendid as Birmingham's Symphony Hall?

Richard Fairman

## Getting Attention

### ROYAL COURT THEATRE UPSTAIRS

If you are fed on a diet of the classic London theatre critic now tending to sell — it is possible that one approaches such new work as is around with unduly high standards. I doubt if I would have judged *The Philanthropist* so harshly the other day if I hadn't recently been seeing Shakespeare, Molière and Dryden.

On the other hand, perhaps we have been too kind to playwrights like Martin Crimp all along. It is hard to imagine a more excitingly original place than his *Getting Attention*, at the Royal Court Theatre Upstairs.

Crimp is a derivative of Harold Pinter: short sentences, punctuated by pauses, with violence in the background.

There was something to be said for *Getting Attention*, which dealt with the sense of guilt of people trying to sell a house. I gave him the benefit of the doubt for his *One Sees the Video* — about the alleged hypocrisy behind market research at the Theatre Upstairs last November. And, to be fair, *Getting Attention* is not his latest work. Written in 1987, it has only begun to emerge on stage. It has the excuse of immaturity, and needs it.

The piece involves a social worker, though it is unclear whether it is an attack on the social worker's negligence or on society for requiring social workers in the first place. The action takes place in and

around a block of council housing in north London. There is a lot of repetitive swearing and repressed sex. Possibly the piece is criticising the local council for insensitivity in housing allocation. Perhaps it is about childlessness and child sex abuse. Certainly a child is killed by its common law step-father who gives it a bath too hot ostensibly because he cannot bear the child being dirty. (Mercifully, that scene takes place off-stage.) The neighbours look on. One of them has had his own children removed by a social worker. The social worker in the play, who seems a nice girl full of good intentions, does not press her inquiries to demanding to see the child.

In the back of my mind I have the impression that I read the story in the news pages of *The Guardian* some time ago. Nothing wrong with that. But this is meant to be a play. What, one may ask, are two white youths doing with black monkeys at the start? Why step-father himself take to a monkey mask: a white one, as it happens? Why indeed anything? *Getting Attention* might just about make it as a semi-documentary social case history on the small screen. Why anyone should be expected to pay to see it on stage is beyond me. It is directed by Jude Kelly.

Malcolm Rutherford

## INTERNATIONAL ARTS PREVIEW & EXHIBITIONS

### BARCELONA

Gran Teatre del Liceu 21.00 Eva Marton sings Tosca, with Sherill Milnes as Scarpia, also Wed and Sun. Tomorrow: recital by Kiri te Kanawa (412 1468)

### BERLIN

DANCE Komische Oper 19.00 Tom Schilling's production of *Cinderella*, music by Prokofiev. The opera programme this week includes Der Freischütz tomorrow, The Barber of Seville on Wed and Thurs, and *Die Entführung aus dem Serail* on Fri. Sat: new ballet by William Forsythe and Amanda Miller (230651)

Staatstheater unter den Linden 19.30 Madama Butterfly with Miriam Gaudl in title role. Tomorrow and Wed: John Cranko's ballet *The Taming of the Shrew*. Thurs: La Traviata. Fri: Pelléas et Mélisande (2004 782)

Tennstedt conducts Berlin Philharmonic Orchestra in Mahler's 8th Symphony (2614 383). Thurs, Fri and Sat: Miltades Gardis conducts Berlin Symphony Orchestra (2272 251). In: Philharmonie Kammermusiksal on Wed: world premiere of Kurtág's *Grabstein für Stephan*, followed by Gluini concerts on Thurs, Fri, Sat and Sun (2614 383)

THEATRE The repertoire at the Deutsches Theater includes two new plays. John Gabriel Borkman and Peer Gynt, plus Golden's *The Servant of Two Masters* (2871 225). The Volksbühne has plays by Sean O'Casey and Bulgakov (2082 748), and the Maxim Gorki Theater has plays by Feydeau and George Tabori (2082 783). In the western part of the city the Schaubühne is presenting Kleist's *Amphytrion* and Luc Bondy's production of *The Winter's Tale* (890023)

### CHICAGO

Orchestra Hall 19.30 Symphony Chamber Soloists of Chicago play chamber music by Kodaly, Dohnányi and Bartok. Thurs, Fri and Sat: Isaac Stern plays Beethoven's Violin Concerto (435 6885)

### FRANKFURT

Opernhaus 19.30 Oleg Caetani conducts *Un ballo in maschera*, with Mara Zampieri as Amelie and Piero Cappuccilli as Renato, also Fri. Sat: new ballet by William Forsythe and Amanda Miller (230651)

At the English Theater Kaiserstrasse, Alan Ayckbourn's *Absurd Person Singular* is being performed daily except Mon (242 3160)

### LONDON

MUSIC Royal Festival Hall 19.30 Bernard Haitink conducts the London Philharmonic in Mahler's Seventh Symphony. Tomorrow: Jia Varday sings *Abigaille* in concert performance of Nabucco. Thurs: Montserrat Caballé. Fri: Charles Mackerras conducts LPO. Sun: Rozhdensky conducts Elgar, Britten and Prokofiev (828 9800)

Queen Elizabeth Hall 19.45 Tamas Vessaly is conductor and soloist with Bournemouth Sinfonietta in Chopin's Second Piano Concerto and the Fourth Symphonies of Honegger and Mendelssohn. Tomorrow: Maurice Herson plays Mendelssohn's Violin Concerto with English Classical Players. Wed: Fischer-Dieskau sings Schubert. Thurs: English Baroque Choir and Orchestra in Mozart programme. Fri: Hariprasad Chaurasia plays Indian flute music (828 8800)

THEATRE The National is staging Long Day's Journey into Night by Eugene O'Neill. The play, often seen as an examination of O'Neill's own extraordinary family life, opens tomorrow at the Lyttelton in a production by Howard Davies. Alan Bennett's stage adaptation of *The Wind in the Willows*, directed by Nicholas Hytner, can be seen in the Olivier tonight and tomorrow, followed later in the week by Steven Pimlott's new production of Molière's *The Miser*. The

Cottesloe repertory includes Alan Ayckbourn's play for all the family *Invisible Friends* and Christopher Hampton's new play *White Chameleon*. For information about other shows call Theatre Box Office on 0836 430961. Plays 0836 430966 Musicals 0836 430968 Comedies 0836 430961 Thrillers 0836 430982

### MADRID

Teatro Lirico La Zarzuela 20.00 Rafael Frühbeck de Burgos conducts Hugo de Ana's new production of *Otello*, with cast led by Plácido Domingo, Daniela Dessi and Justino Diaz. Also Thurs and Sat (429 8225). Tomorrow in Auditorio Nacional de Música: The show choir *Los Angeles Chorus*. Sat recital by Lucia Popp (837 0100)

### NEW YORK

DANCE Metropolitan Opera 20.00 American Ballet Theatre production of *La Bayadère*, also tomorrow, Wed and Thurs. Fri and Sat: triple bill including Kenneth MacMillan's *Concerto* (362 8000). Also City Ballet season at the New York State Theater, Tues to Sun (870 5570)

THEATRE The Secret Garden is a musical based on the Frances Hodgson Burnett novel about an orphan who goes to live with her uncle on the moors, and discovers a magic garden where anything can happen. Book and lyrics by Marsha Norman, music by Lucy Simon. Directed by Susan Schulman. Tues to Sat at St James Theater). The Will Rogers Follies is a musical directed and choreographed with

customary flair by Tommy Tune, with Keith Carradine as an accomplished leading man (Mon to Sat at the Palace). Also on Broadway: Larry Gelbart's musical *Shogun* (Theatre 69). The musical *Rudnik's Comedy*. Hate Hamlet and Andrew Lloyd Webber's musical *The Phantom of the Opera*. Ticketron (246 0102) answers inquiries and sells tickets

### PARIS

MUSIC AND DANCE This week's events include a new production of *Die Entführung aus dem Serail* opening on Thurs at the Châtelet, conducted by John Eliot Gardiner (4028 2240); at the Bastille, a concert on Wed conducted by Marek Janowski and a new staging of *Samson et Dalila* opening on Fri (4001 1618); the Monnaie Dance Group choreographed by Mark Morris is at the Théâtre des Champs-Élysées from tomorrow till Sat (4720 3537); and there are concerts by the Orchestre de Paris at the Salle Pleyel on Thurs, Fri and Sat featuring Radu Lupu as piano soloist (4563 0796). The Théâtre de la Ville is hosting a programme of Japanese dance from tomorrow till Sat (4274 2277)

THEATRE The repertoire at the Comédie Française includes Jacques Lassalle's production of Marivaux's comedy *La Fausse Suivante*, Beaumarchais' *Le Barbier de Séville* and Strindberg's *The Father* (4366 4360). Feydeau's one-act farce *On purge bébé* is playing at the Théâtre des Bouffes du Nord (4607 3450) and the Odéon-Théâtre de l'Europe has Jean Genet's *Le*

Balcon directed by Liul Pasqual (4325 8082)

### VIENNA

MUSIC Theater an der Wien 19.00 Claudio Abbado conducts Jonathan Miller's Vienna Festival production of *Le nozze di Figaro* with cast led by Ruggero Raimondi, Marie McLaughlin and Cheryl Studer. Last performance on Wed (586 1678)

Staatstheater 19.00 Ivan Fischer conducts *Die Entführung aus dem Serail*, also Thurs. Tomorrow: *Die Zauberflöte*. Wed, Fri and Sun: Lucio Silla. Sat: Idomeneo (5144 2290)

Konzerthaus 19.30 Mieczyslaw Horowitz plays piano music by Bach, Mozart and Beethoven. Tomorrow: song recital by Robert Holl. Wed: Herbert Bock conducts Julius Bittner's *Great Mass*. Thurs and Fri: Arditi Quartet. (7124 6860)

### ZURICH

Opernhaus 19.30 Carlos Kalmár conducts *Die Zauberflöte*, with Gösta Winbergh as Tamino, also Wed. No performance tomorrow. (251 0909)

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CIN 0930-0930 Moneyline  
0930-0930 Moneyline  
1230-1330 CNN International Watch  
1330-1400 Business Day  
2000-2030 World Business Today - a joint FT/CNN production  
2000-2030 World Business Today - a joint FT/CNN production  
0100-0130 Moneyline  
Superchannel 0700-0830 Financial Times Business Report  
A five minute business briefing broadcast three times between 0700 and 0800  
2220 - 2250 (Wed) Financial Times Business Weekly - the latest round-up of business news with James Bellini and Debbie Middleton  
0800 & 2030 (Thurs) Financial Times Business Weekly  
Sky News 1200 International Business Report  
2130 (Thurs) Financial Times Business Weekly  
SATURDAY  
CIN 0600-0930 Moneyline  
0930-0930 World Business Today - a joint FT/CNN production  
1545-1610 Moneyline  
1900-1930 World Business This Week  
2110-2140 Your Money  
SUNDAY  
Superchannel 1800-1830 FT Business Weekly  
1930-2000 FT Business Weekly  
2250-0030 FT Business Weekly  
Sky News 1030-1100 FT Business Weekly  
0710-0740 Moneyweek  
1540-1610 Your Money  
1900-1940 Moneyweek  
0040-0110 Inside Business



# Judging the Labour party

# Labour and the economy

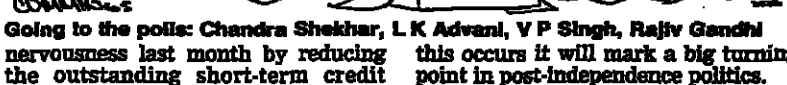
Beyond this, Labour relies on increased public borrowing for what it deems investment) and the covert increase in taxation known as "real fiscal drag" (the consequence of the growth of real incomes in a fiscal system whose marginal rates are above average rates). There will be no tax cuts.

Mr Kinnock has stated that over the lifetime of a parlia-

Labour, in short, promises to be nanny. There would be more regulation of economic life; there would be more government intervention; there would be less competition in the public sector; and there would be quangoes everywhere. But nanny does at least promise to be prudent.

At a relatively puny 127kg, he faced opponents of up to 238kg, using a combination of sculptured physique and astonishing guile to defeat them. He won more bouts (1,045) than any wrestler in

# No clear sense of direction



by HMSO - which  
WW Morel as a rolling-  
ducer. "It's like being  
ironmonger rather  
ntchmaker," snorts  
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cister is used as a ref-

Labour health minister  
a sting for all politi-  
publish diaries of t  
in power. When Be  
asked why he'd de  
doing so, he said: "I  
fiction straight."

**All enquiries should be addressed to the Organisation, 126 Jermyn Street, London W1 (24-hour answering service), Tel 01-235 8600.**

Both views contain a large measure of truth. But what is clear is that India needs a stable government and effective leadership to confront the challenges and seize the opportunities on offer.

At a relatively puny 127kg, he faced opponents of up to 238kg, using a combination of sculptured physique and astonishing guile to defeat them. He won more bouts (1,045) than any wrestler in

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WW Morel as a rolling  
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Labour health minister carries a sting for all politicians who publish diaries of their days in power. When Bevan was asked why he'd decided against doing so, he said: "I prefer my fiction straight."

**Stratton Hudson, assistant Corporation; Mr Martin Greenberg, COMEX; Mr Mel Frydych, Fleet Precious Metals Inc and Dr Fabio Torboli, World Gold Council.**



## Off-the-shelf citizenship

Ivo Dawney on the political football being kicked around by all three main UK parties



Archimedes had his bath. Newton had his apple. Mr Graham Mather had his unconnected telephone. From such mundane beginnings are revolutions born.

If doubts persist as to whether Mr John Major's concept of a Citizen's Charter can live up to its packaging as "The Theme for the 90s", that conclusion was at least endorsed by Labour, which last week produced nine pages of counter-claims to authorship. Intellectual copyright rows aside, all three main parties have settled on "citizenship" as the modish political flavour for the decade, though they arrived there from different directions.

For the Tories, as good a starting point as any is Mr Mather's telephone. In 1987, when recently privatised British Telecom was having problems in meeting demand with supply, Mr Mather needed a phone line. He was instantly despatched to the back of a 1,000-strong central London waiting list.

Being the general director of the Institute of Economic Affairs - the market-oriented think-tank - Mr Mather did not merely write a gruff letter to The Times; he wrote a "think piece", entitled "Calling Telecom to Account".

His argument was simple: quasi-monopolies needed a contractual relationship with their customers to allow for redress and compensation whether in kind or in cash. As local and central government also supply services - whether rubbish collection or complex advice to exporters - they, too, should have to offer something similar.

With privatised industries already equipped with consumer watchdogs in the form of regulators, both of performance and of price, the Civil Service could and should be forced to "mimic the market" by taking on targets and obligations. British Rail, for example, might be required to compensate inconvenient passengers on late trains by giving them vouchers to travel free on off-peak services.

More radical still, health service patients might have the right to seek treatment in the private sector, at the expense of the state health service. If waiting lists grew too long, by introducing such "rights" - clearly defined in quantity and quality targets for service provision - market disciplines could penetrate the darkest corners of the public sector, in turn with the new health care to introduce private-sector management systems into the Civil Service.

But why is this a Citizen's

Charter? The answer is largely that by enforcing quality and creating mechanisms for effective redress for poor service, the individual taxpayer is at last being treated as the master of the plaintiff of the civil servants whose salaries his taxes pay.

This strategy, defined as "empowerment" by the Adam Smith Institute, another leading right-wing think-tank, forms the intellectual bedrock of the concept of "citizenship", that Mr Major presented under the slogan of "Power to the People" in Southampton in March.

For Labour, the very use of that left-wing slogan was further proof that its own home-grown "citizens" programme had been hijacked. With some justice the party has pointed to a speech by its leader, Mr Neil Kinnock, emphasising the need to set clear and published targets and standards for local authorities made as far back as 1986.

But Labour's programme appears to have grown from a sense of grievance over the introduction of council level schemes at council level. Today, Labour has a whole architecture of policy on quality service provision based,

like that of the Tories, on targets and guarantees for users. In London's Islington borough council, for example, swimmers can demand and get vouchers for the free use of municipal pools if such items as water temperatures or standards of cleanliness fail to meet pre-stated guarantees. Elsewhere, the council's citizen-oriented planners have introduced neighbourhood council offices, ensuring that housing or social services problems are almost literally dealt with on the doorstep.

Ms Margaret Hodge, leader of Islington council, explains, however, that the origins of the policy were removed from those of the Tories post-privatisation agenda. It stemmed from a growing perception among Labour activists that "Too many services are being run from the working class."

The view that council services were overly tilted towards producer interests - in local government terms, unions and administrators - was expressed in a new approach to satisfying consumers' needs involving what Ms Hodge describes as a "massive cultural change", not least for the

unions, some of which have proved resistant.

Dismissing the Tory "citizens" as "only interested in things that cost you less", she argues that Labour's emphasis in Islington has been a fundamental shift away from its historic links with the union/producers to the public at large.

But this new-found concern for the consumer does not convince the right. Dr Madsen Pirie, president of the Adam Smith Institute, confesses that it is a legacy of Labourism that has, for example, created a Post Office that drops Sunday collections in the interests, not of users, but employees. "If there were state-owned restaurants, they would close for lunch to allow the staff to eat," he contemptuously asserts.

None the less, despite the two main parties' different points of departure, there can be little argument that both are actively championing only mildly varying concepts of citizenship.

To Mr Paddy Ashdown, the Liberal Democrats' leader, citizen power is "a far more important idea than contract cleaning in York". In his 1988 political tract, *Citizens' Britain*, Mr Ashdown insists the concept of all about participatory democracy in which government uses its powers to promote citizens' involvement in government.

This should involve everything from worker representation on company boards to, inevitably, electoral reform, a principle that says every vote should count. Probably, the Liberal Democrats, with their tradition of seeing the citizen as the classes alternative to Labour's "worker" or the Tories' "taxpayer", are most deserving in their claim to be the original advocates of citizens' democracy. But their vision is far from that of their rivals.

At this raises interesting questions about the new trends in the evolution of party policy. Indeed, the customers' contracts idea can arguably be traced, not to politicians at all, but to the Island Revenue, which published a "Taxpayer's Charter of rights in July 1986.

But it is only when a political vacuum is reached - the end of the privatisation road, for example, or the end of hard-left militancy - that the state will go shopping in what Dr Pirie describes as the "supermarket of ideas".

So fiercely competitive is the marketplace, however, it is hardly surprising that, ideologically, both main camps should emerge with similar, well-advertised product that has lain so long ignored on the shelves.

## Samuel Brittan

### Red-Blacks strike again



As a cub journalist I learned that I could always gain attention by saying that there was a difference of opinion between the Treasury and the Bank of England. Many commentators have been following this rule with a vengeance over the past 10 days. But they have not chosen the best occasion. Such differences as there have been between the governor of the Bank of England, Mr Robin Leigh-Pemberton and the chancellor, Mr Norman Lamont, have been on relatively trivial matters, eg on which day of the week to announce a base-rate change. There has been harmony on the priority to be given to getting on top of inflation.

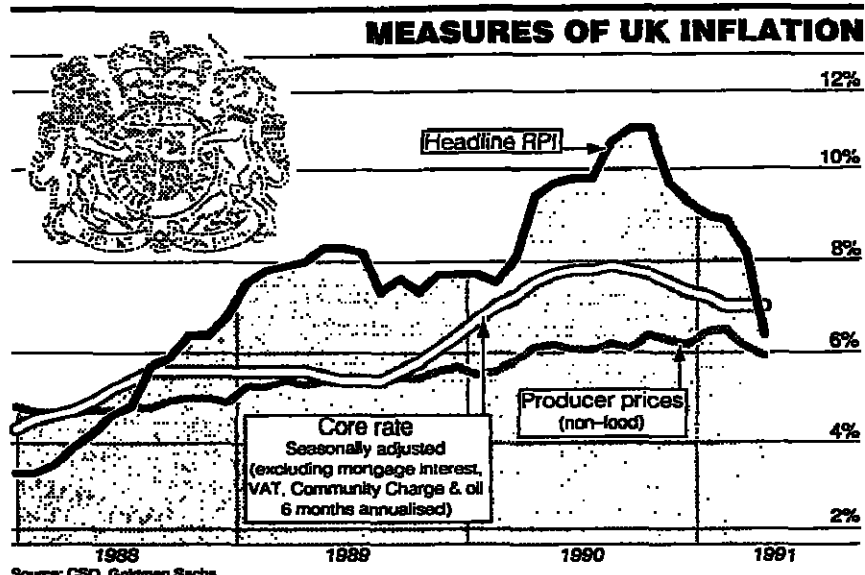
The real differences have been between both Treasury and Bank on the one side, and nervous backbenchers - who want to buy the next election with cheap money - on the other. They have been egged on by the now familiar Red-Black coalition of unreconstructed left-wing Keynesians and what one MP has called anarcho-monetarists, who have forgotten their own teachings about not being able to spend one's way into prosperity.

The present fit of jitters began with a lecture by Mr Leigh-Pemberton as visiting professor at Exeter, which was almost a teenager's guide to the distortions of the Retail Prices Index. His object, of course, was to deflect populist knee-jerk reactions to the sharp drop which was obviously coming in the headline RPI for April due to the dropping out of last year's poll tax induced increases.

In one respect he went further. The normal RPI, even when some distortions have been removed, is not seasonally adjusted. Comparisons therefore are always with a year ago, which may hide important recent trends. The governor therefore alluded to more sophisticated statistical techniques. One piece of research did apparently suggest that the underlying rate of inflation had recently become stuck. But the Bank's more considered view, expressed in the May Bulletin, is that the underlying rate has been very gradually falling, but by nothing like as fast as the headline rate.

The danger of all this shadow-boxing is that base-rate cuts may indeed be unduly delayed, despite sterling's reasonably strong position in the ERM, by the need to show that neither the Bank nor the Treasury is running away under political pressure. The congenial mistake of the Bank - apparent for instance in the mid-1980s - has been to worry about interest rates and exchange rates falling too fast when it should have been worrying about them falling too far.

If anything, the instant commentators have been over-optimistic on the real economy. The industrial production index has been distorted upwards by the recovery of oil and is in any case not sensitive enough to pick up month-to-month changes. In the first quarter of 1991 man-



ufacturing output was still falling at an annualised rate of more than 4 per cent; and the best one can say is that it is falling less steeply than in the second half of 1990. Unemployment, even on a six-monthly average has been rising by nearly 1m a year, and it is not much comfort to those who lose their jobs to know that it is a lagging indicator.

Monetary policy cannot be a substitute for labour market reform. But it does have a role which the governor explained most fully in a subsequent speech in Frankfurt. He did not say that it should be concerned only with stable prices, but that "it should not attempt to deliver a target path for real output". The objective should be to provide stable prices and the basis for a steady growth of nominal income (or nominal gross domestic product) that is consistent with underlying productive potential.

Unfortunately, measurement problems bedevil nominal GDP as well as inflation. The usual measure is just as distorted as the RPI both by the poll tax and by VAT. The version which best gets round this difficulty is known by the ungainly name of "nominal GDP at factor cost". Non-specialist readers might take my word for this, but they could ask why more effort is not made to assess its trend. Private estimates suggest that it may now be rising by a shade less than 5 per cent a year, which is below what is required for non-inflationary growth, thus providing some headroom for relaxation.

There is of course no one correct way of measuring underlying inflation - which does not mean that we should be satisfied with a headline rate, any more than a doctor should assess a patient by minute-to-minute changes in his pulse. For clarity, I have concentrated in this *Tenagers' Guide* on just three rates: the headline one, a seasonally-adjusted core rate

calculated by Goldman Sachs, and the official non-food producers' price index. The Treasury has been embarrassed because its previous measure of underlying inflation, which excluded both poll tax and mortgage interest, now shows a large increase. It would prefer to take out interest payments alone from the index. Although the results are quite plausible, they look too much like special pleading. I have preferred to take the Goldman Sachs underlying index which consistently excludes the poll tax, mortgage interest payments, VAT and petrol prices alike. The version on the chart is a seasonally adjusted six months comparison expressed at an annual rate. This peaked at 7.5 per cent last August and has now fallen to 7.0 per cent.

The problem, however, with any measure based on the Retail Prices Index is that, even when adjusted, it is - like unemployment - a lagging indicator and thus a poor guide to inflationary pressures. Producer prices come through at a much earlier stage. But there have been the usual statistical quirks.

A much better picture is given by non-food producer prices. They may be biased downwards because of the exclusion of services, and biased upwards because of the use of list rather than actual prices. But they have given a good indication of trends. The annual increase peaked at 6.5 per cent in February and has now fallen to 5.7 per cent; and Confederation of British Industry survey evidence suggests that it is now poised to fall rapidly. Even earnings increases, which are notoriously slow to adjust, have dropped back in manufacturing from 9% per cent in December to 8% per cent on March.

All this might strengthen the case for some easing. Unfortunately the effect of the Red-Black coalition is, as it was last winter, to delay the easing of policy for which it is clamouring.

## LETTERS

### Realities of directors' pay

From R T Addis.

Sir, Those who are currently castigating directors for awarding themselves large increases in remuneration while their companies' results are in decline are being grossly unfair.

What they fail to realise is that the amounts on which they base their complaints are those taken from a company's annual report and show the compensation paid to directors in the previous year. Almost invariably the figures include a substantial element of performance-related pay which is calculated on results in the year before that reported upon.

A company, therefore, which publishes its report for the year to, say, April 1 1991, will show details of directors' pay based significantly on results during the financial year 1989-90 when times were a good deal better.

I think it is time someone spoke up for those who, in exceedingly difficult circumstances, are bearing responsibility for keeping their companies in business and working in the best interests of their employees and shareholders.

Many directors, particularly in the beleaguered financial services sector, are taking no basic salary increases this year whatever. The effect of declining company performance will reduce their bonus entitlement and the evidence of all this will become apparent in their reports published next year.

Let those who complain, please, make sure of their facts before rushing into print.

R T Addis,  
Tyndall & Partners,  
10 Hallam Street, W1

### 'Genuine choices' in the distribution of GDP

From Mr Alister Sutherland.

Sir, Samuel Brittan asks (Economic Viewpoint, May 18): "Does one have to be a fanatical individualist or blind to the existence of public goods to believe that the present 40 per cent share of GDP taken up by public spending is enough, and that improvements in services should come from a better use of the existing share of a growing GDP?"

The answers might include: 1. GDP is carefully defined so as not to include transfer payments. That is because payments on, for example, pensions, unemployment pay, child benefit and other cash grants, *redistribute* GDP; they do not "take it up" or absorb it. 2. Value judgments about how much redistribution of GDP one would like to see, and about future levels of income taxation, even in a growing economy, might be influenced by what is said by the Central Statistical Office in its *Annual Economic Trends*. For the period 1977 to 1988, and so omitting, for example, the effects of removing tax rates above 40 per cent, the CSO reports: "The main conclusion is that the distribution of

household income has become more unequal over the eleven years. The bottom quintile group's share of total disposable income fell over the period from 9.7 to 7.6 per cent, whilst the share of the top quintile group rose from 36 to 46 per cent. The same analysis shows that payments of income tax, net of mortgage interest relief and life assurance premiums, plus National Insurance payments, were 16.9 per cent of average household gross income in 1988, rising to 20 per cent for the top quintile. 3. That public spending which is on goods and services (education, health, defence) does indeed absorb GDP. But the expenditure provides valuable benefits. Although private spending on, say, motoring also both absorbs GDP and provides services, one does not see that described as "taking up" GDP. Are we meant to be conditioned to think that the public sector is a black hole and that if we did not have public spending on, say, health, there would be no need for private spending on it?

4. The limit to public spending thus depends on how much redistribution of income is thought desirable; as well as on the detailed case by case analysis of how best to do those things which *laissez faire* does not do. Fanatics apart, there is a need for informed debate about a scope of public spending, its efficiency, and the degree of progression in the tax system. But the answer to Mr Brittan is that there are still indeed genuine choices to be made. The matter is not resolved by appeal to the misleading "ceiling" hiding behind his rhetorical question.

Alister Sutherland,  
Trinity College,  
Cambridge

### Behind a rare show of cross party support

From Mr Terence Higgins MP.

Sir, Your leader "Labour takes the next step" (May 9), was right to stress the importance of bipartisan support for reforms designed to improve the quality of public services. You stated that "an cross-party support for institutional reform has become rare enough to merit comment in its own right".

In fact, this has been due to a significant extent to the work of the Treasury and Civil Service Committee - and particularly that of its sub-committee under the chairmanship of Mr Giles Radice (Lab, Durham North) - which in successive reports has played an important role in ensuring all party support for the Next Steps initiative.

In our most recent report (Eighth Report, 1989-90, The Next Steps Initiative (L10481)) the committee said that: "The Next Steps Initiative is the most ambitious attempt at civil service reform in the twentieth century. The sustained interest of parliament and all democratic parties is crucial to its initial success, its medium-term development, and its long-term durability as a more efficient, open and accountable way of conducting public business."

In our concluding paragraphs, we recorded that there was general agreement that Next Steps was a generally neutral reform, and stressed that the non-partisan character of the reforms must be maintained.

The all-party support given by the Treasury and Civil Service Committee has helped establish the confidence of all parties in Next Steps being "a piece of transferable technology" operable by governments of any political persuasion. The speech by the shadow chancellor specifically recognised the work done by the Treasury Committee in ensuring the all-party support for the Next Steps initiative.

Terence Higgins,  
Treasury and Civil Service Committee,  
House of Commons, SW1

### A party political present

From Mr J L Whitty.

Sir, We don't mind referring, as you suggest ("No FT, no comrades", May 8), to Samuel Brittan's view that "Unfortunately it is still not possible for market economists to support Labour with a straight face", as long as your generous offer of charging "the reproduction fee" extends to quotations in the FT from industrialists.

Mr D B Robb, of Mariborough Ceramics (Letters, May 8), provides one of many examples. "We regard the recession as being the result of unfortu-

nable incompetence by the government."

We refer to the FT because we hold it in high regard. Rough or smooth, it has the distinction of honesty and useful information. If we use quotations from your paper in future forecasts and publications, thus providing you with advertising that reaches millions, no promotion fee. This one's on us.

J L Whitty,  
general secretary,  
The Labour Party,  
150 Wakeorth Road, SE1

### Golden gate

From Mr Peter Verstage.

Sir, At least factory gates manufacturers seem to be doing well, having got away with yet another price rise ("Factory gate prices up 1.2 per cent", May 16). We must be in the wrong business! Peter Verstage,  
managing director,  
Mekvale Envelopes,  
Weir Road, SW12

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## COMPANIES AND FINANCE

## Call for Japan banking to adopt European style

By Emiko Terazono in Tokyo

JAPAN'S ruling Liberal Democratic Party (LDP), eager to make its mark in the country's financial deregulation talks, has announced its own blueprint for the future shape of the Japanese banking and securities businesses.

A party committee complained that Ministry of Finance bureaucrats handling the reforms were only co-ordinating interests of the banking and securities industries, and ignoring the consumer.

It recommended that Japan should allow the establishment of European-style universal banks, instead of the partial removal of barriers between banking and securities, favoured by the finance ministry.

The LDP's move seems designed to win applause from

the voters since it has come too late to alter the finance ministry's approach.

Mr Tetsuo Kondo, leader of the committee, said that politicians were the ones who passed the laws, and that the finance ministry would have to listen to them.

The report stated the importance of consumer provisions, accessibility to various financial services, and reduction of regional differences in financial services.

It also stressed the importance of government-affiliated financial institutions to support small companies and social welfare programmes. However, it said that such innovative reforms could not be expected from the bureaucracy, and that politicians must take the lead.

## Underwear maker declines to Y12.4bn

By Emiko Terazono

WACOAL, Japan's leading underwear maker, announced a 12.3 per cent drop in pre-tax profits for the year to March 1991, to Y12.4bn (\$95.2m).

Sales rose 3.4 per cent to Y117.4bn. The company said that the effect of the warm winter was seen in sales of its winter underwear, but there were strong sales in women's underwear, nightwear and designer brand clothing.

Wacoal blamed higher labour costs and capital investments for the squeeze in profit.

After-tax profit gained 0.9 per cent to Y6bn, helped by a corporate tax reduction.

This year, Wacoal forecasts sales up 3.5 per cent to Y127.5bn, but expects competition from imports. The labour shortage will hurt profits, and the company forecasts only a 0.5 per cent rise in pre-tax profits to Y12.5bn.

Wacoal will pay an ordinary dividend of Y13.5 per share, although it had paid an extra Y1.5 per share in 1989 to commemorate its 40th anniversary.

## NRI TOKYO BOND INDEX

	PERFORMANCE INDEX				
	1989	1990	1991	1992	1993
Overall	100	100	100	100	100
Government Bonds	100	100	100	100	100
Non-Government Bonds	100	100	100	100	100
Bank Deposits	100	100	100	100	100
Corporate Bonds	100	100	100	100	100
Government 10-year	100	100	100	100	100

† Estimated per 100

Source: NRI Research Institute

## Singapore Airlines falls 24% to S\$912m

By Joyce Quek in Singapore

SINGAPORE Airlines yesterday unveiled a 24 per cent decline in after-tax profits to S\$912m (US\$511m) for the year ended March 1991.

The airline said business levels had been hit by the Gulf crisis, the strength of the Singapore dollar and rising fuel costs. Revenue fell 2.5 per cent to S\$4.95bn.

The slowdown of economic activities worldwide, especially in its markets in the US, the UK and Australia, cut demand for air services. The situation was worsened by the Gulf crisis which pushed oil prices up and further discouraged people from travelling, the airline said.

The 6.5 per cent strengthening of the Singapore dollar against many currencies depressed revenue by S\$253m. Passenger and cargo revenue fell 1.4 and 7 per cent to S\$3.6bn and S\$438m respectively during the year.

The sale of three aircraft yielded S\$208m. Singapore Airlines' fleet of 43 aircraft is still the world's youngest at 4 years and 9 months. A S\$1.6bn order in March calls for the delivery of six 747-400s between 1992 and 1995.

Looking ahead, the airline sees bluer skies with capacity for 1991-92 expected to rise by 13 per cent. With the end of the Gulf war, volatility in fuel prices has abated and confidence among the travelling public is being restored.

Advance bookings had picked up and the outlook was encouraging although full recovery is not likely until later this year. Cargo traffic is also expected to recover.

Mr Hannes Goetz, chairman-designate of Swissair, said he will make cost control a top priority when he assumes his post at the beginning of 1992, AP-DJ reports.

Mr Goetz also said he would not rule out the possibility of a merger with another airline, but not before Swissair strengthens its own competitive position.

He said that in the near-term, the airline should focus on strengthening its position as an independent carrier.

## Personal computers go on the blink

Louise Kehoe on the impact of the US industry's increasingly bitter price war

Stagnant sales and a bitter price war are causing turmoil throughout the US personal computer industry, squeezing manufacturers' profit margins and forcing rapid consolidation among distributors.

Compaq Computer, a Dallas market research company, said the alarm when it disclosed last week that it expects a steep decline in sales and earnings in the current quarter. Now Apple Computer is expected to announce large scale layoffs as it struggles to maintain profit margins, and IBM is reported to be about to cut the prices of some of its personal computer products for the second time in a month.

Price cutting has become endemic in the personal computer market. Over the past month, IBM, Compaq, Dell Computer, AST Research, Toshiba and several other makers have drastically reduced the list prices of their personal computer products by as much as 30 per cent. Dealers, struggling to make sales, are discounting prices further.

Apple Computer led the trend last October, when it introduced a new range of low-cost machines in a bid to boost its declining share of the market.

Apple declared its new pricing strategy a success when it almost doubled the number of computers it sold in the March quarter compared with unit sales the same period last year. Indeed, the company's share of the US market for personal computers sold through

dealers, the primary distribution channel accounting for an estimated 90 per cent of sales, rose from 10.6 per cent in the first calendar quarter of 1990 to 17 per cent in the first quarter of 1991, according to Storeboard, a Dallas market research company.

But selling lower priced computers has put pressure on Apple's profit margins and the company, under Mr John Sculley, chief executive, now expects earnings in the current quarter to fall below those of a year ago.

Apple must cut its costs to improve its financial performance, analysts say. Some believe that will mean reducing the company's workforce by up to 15 per cent, laying off up to 2,000 people.

While Apple's market share has significantly increased, IBM's share of sales by dealers remains flat at 28.7 per cent, according to the market research group's dealer surveys. The effects of IBM's price cuts in April, which ranged from 3 per cent to 38 per cent, have yet to be measured.

Already, IBM is expected to drop prices further.

Compaq, the second largest personal computer company after IBM, has however lost ground to its rival. In the first quarter of 1990 to 18.4 per cent in the first quarter of this



John Sculley expects Apple earnings to fall

Epson, two of the largest sellers of personal computer "clones". Taking the brunt of the market slowdown are third-party computer dealers who sell the industry's products to end users. Their sales have slowed dramatically as corporate buyers limit spending and individual purchasers procrastinate.

For computer dealers, lower prices slice into already wafer thin profit margins, compounding the problems of slack demand. Established dealers also face mounting competition from a new generation of computer mass merchandisers. These no-frills warehouse superstores, selling computers at steeply discounted prices, have virtually eliminated the high street computer store in large metropolitan areas throughout the US.

Computerland, for example, a pioneer of the personal computer retail business, has largely abandoned the retail market, opting for "sales offices" with a sales force that visits potential customers.

The profit squeeze on computer resellers is taking its toll. Last week Businessland, once the industry's largest reseller, reported heavy losses and said that it may be forced to seek bankruptcy protection. Businessland won an eleventh hour reprieve from its creditors which will enable it to continue operations while it talks with an unnamed third party

said to be interested in acquiring the ailing company.

Several other computer resellers have already combined with former competitors. Six of the leading personal computer sales companies in the US have merged into three over the past two months. In the largest merger, ValCom and Inacom Computer Centers, the two leading computer dealers in the Mid-West, agreed to merge, forming a chain of over 700 company owned and franchised dealerships.

"As a result of the consolidations and mergers that are currently taking place in the dealer channel, an excess inventory position has been created within these operations, which will delay their purchase requirements for additional products," Mr Canion said last week.

Compaq is, however, only "the first to publicly admit that there is a problem," says Storeboard. The dealerships that are merging also carry IBM and Apple Computer products, it points out.

The consolidation among computer dealers is far from over, industry analysts predict. If they are right, then computer manufacturers will continue to feel the effects. To make matters worse, leading US personal computer makers who derive more than half of their revenues from outside the US face reduced earnings from foreign operations as the value of the US dollar rises against European currencies.

## Roche sales rise 9% to SFr3.59bn at four months

By William Dullforce in Geneva

ROCHE, the Swiss pharmaceutical and chemicals group, reported a 9 per cent rise in sales to SFr3.59bn (\$2.6bn) during the first four months.

No profit figures were announced but Mr Fritz Gerber, chairman, forecast a further advance in consolidated net earnings for 1991.

Group earnings have more than doubled in the past four years, according to the 1990 report, released yesterday, which for the first time follows international accounting standards.

Net profit per share climbed from SFr104 in 1988 to SFr220 last year, while the dividend has been raised from SFr25 to SFr42 per share over the same period.

Last year Roche recorded an 11.3 per cent advance to SFr946m in net earnings on the back of a 9 per cent advance in turnover to SFr8.67bn. Cash flow amounted to SFr1.6bn.

The result, achieved despite the international economic downturn and the strong appreciation of the Swiss franc, had been impressive by any standards, Mr Gerber said.

## Alcoa to set up European plant

ALUMINUM Co of America (Alcoa) is planning to build a new plant to make aluminium car parts in western Europe, Reuter reports from Pittsburgh.

Mr Paul O'Neill, chairman, said: "We are very close to signing an agreement." He would not identify Alcoa's partner in the venture or where the plant will be.

Mr O'Neill said investment in the plant will "be in the tens of millions of dollars". Mr O'Neill also said Alcoa also is having separate discussions with Japanese car makers on joint ventures that would involve producing aluminium products.

## New Spanish bank may pull out of Europartners

MR Alfonso Escamez, the proposed chairman of the Spanish bank resulting from the merger of Banco Central and Banco Hispano-Americano, feels it makes little sense to keep up Hispano's ties with Europartners, an informal banking alliance. Reuter reports from Madrid.

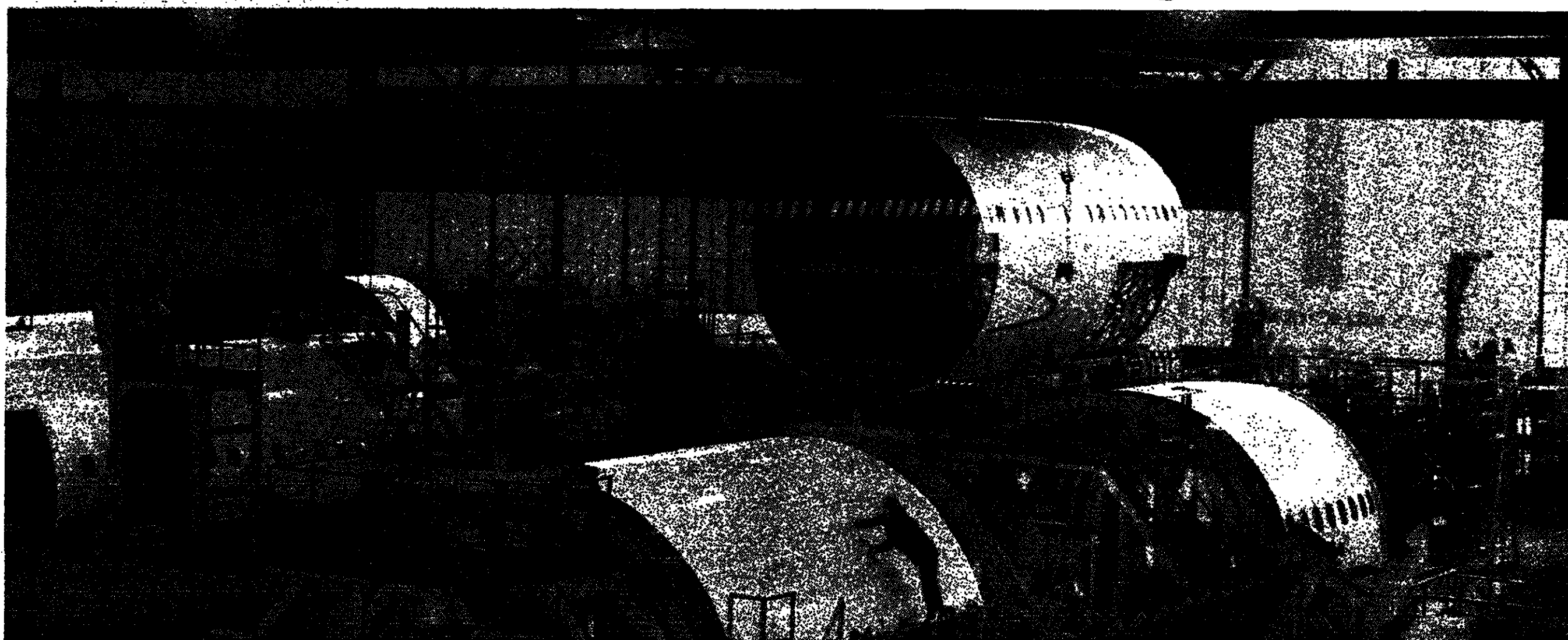
Mr Escamez, chairman of Central, who will become chairman of the new bank until the end of 1992, said on Saturday after a meeting of Central shareholders that staying in the Europartners group "makes little sense now". He did not elaborate.

The other members of Europartners are Commerzbank, Banco di Roma and Credit Lyonnais.

Mr Jose Maria Amusatégui, Hispano chairman, said last week that Hispano's links with Europartners would be discussed at the group's next meeting on June 17.

Mr Amusatégui said co-operation with Commerzbank, which holds 11.4 per cent of Hispano, would continue, but future ties with Banco di Roma and Lyonnais were more difficult to envisage.

## Mannesmann's decisive edge



Assembly of the Airbus in Hamburg-Finkenwerder: The shell components are brought into the assembly bay by means of a radio controlled suspension monorail system. An overhead travelling crane then takes over, transferring these freely suspended fuselage components to their assembly points.



### Airbus assembly system

The Airbus has taken off all over the world and is now locked onto a flightpath to success - thanks to a pioneering design concept backed up by equally advanced manufacturing and logistical techniques. A production system from Mannesmann Demag controls the fuselage assembly of all the different aircraft types which make up the Airbus family. Load lifting and handling systems transfer the shell components "on the wing" from the ware-

housing system to the various workstations. There they are joined together to produce the longest single element of the plane - the body. The electronically driven system monitors all materials flow and step-by-step assembly and coordinates every production stage, executing each move quickly, reliably and with absolute precision.

Mannesmann builds plants and machinery, makes parts and components for the automotive industry, manufactures hydraulic, pneumatic and electrical drives and controls, develops and supplies measurement, automation and information technology, produces steel tube and pipe, provides services and trades on a worldwide scale. Income from sales earned by its 124,000 employees lies in the region of DM 23.9 billion.

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## INTERNATIONAL CAPITAL MARKETS

## UK GILTS

## The Bank keeps traders guessing

HOW the Bank of England likes to keep the gilt market in suspense.

In a week when Spain cut its official intervention rate and Italy its discount rate, the Bank of England declined to deliver what the gilt market had been waiting for — a further cut in the base rate to accompany the fall in the Retail Price Index on Friday.

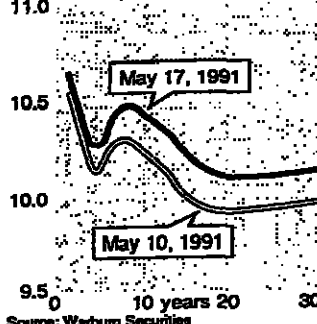
And on the funding front, the Bank has also kept gilt traders nervously on the edge of their seats: they desperately want to know when it will next issue stock as they are worried that it might be falling behind in its funding programme.

The RPI figure of 6.4 per cent for April (a sharp fall from the March figure of 8.2 per cent) was not quite as low as many had hoped. It was not accompanied by a base rate cut, but that has not extinguished hopes that one may take place this week, for two reasons.

First, on Friday the Bank of England lent £400m to the market for seven days at 12 per cent. The previous Friday it lent £960m to the market at 12 per cent for 14 days. The loans expire this Friday and could coincide with a base rate cut. Mr Nigel Richardson, econo-

## UK gilts yields

Registered at par (%)



Source: Westing Securities

mist at S.G. Warburg Securities, points out that the Bank of England showed a similar pattern of behaviour in March — in other words holding 14-day money, followed by seven-day money, at a high rate despite market rumours of an impending base rate cut, and then reducing the base rate by half a percentage point after the Budget when the loans expired.

The other reason — put forward by Mr Simon Briscoe, economist at Greenwell Montagu Gilts-Edged — concerns this week's economic statistics. He

expects to see poor retail sales figures and weak money supply figures, and thinks that these may well persuade the Treasury that a further interest rate cut would help the economy out of the recession.

However, much of the nervousness in the market stems from lack of information about the Bank's funding intentions. By mid-afternoon on Friday the usual time for Bank of England statements concerning issuance — there was still no indication of a tap or impending auction.

Such uncertainty leaves the market unsettled. It feels that the Bank should press ahead with the funding programme given the Public Sector Borrowing Requirement of £8bn, according to Treasury forecasts (although economists expect PSBR to be between £5bn and £12bn once privatisation proceeds have been taken into consideration). "Our forecast £9bn implies gills sales of £1bn in every month over the rest of this financial year," says Mr Briscoe.

In fact there are some in the market who would like to see the Bank committed to an auction calendar. After all, if the Japanese can hold auctions of

Japanese government bonds once a month and the Germans can hold Treasury note auctions every other month, why can't the Bank of England have an auction calendar too, they ask.

Rumours that a "jumbo super-long bond" may be on the way circulated last week: there is speculation that the Bank may issue about £200m of a 20-plus year gilt with a coupon of around 10 per cent. Although the government has traditionally avoided funding at the long end, leaving this part of the curve open for corporate issues, there is demand for a long-dated gilt which could be used for pricing long-term non-gilt bonds.

As it is, institutions are spoilt for choice when it comes to investing, given the recent spate of rights issues from companies who want to reduce their gearing, as well as Eurosterling issues. It may be that institutions are waiting to pick up cheap stock, but the result, according to Mr John Kendall, economist at Baring Sterling Bonds, is that the gilt market has become more dependent on overseas buying.

Sara Webb

## US MONEY AND CREDIT

## Data leave markets none the wiser

A BURST of economic data left the US bond markets little wiser last week. Like the Delphic oracle, the statistics are currently proving enigmatic, contradictory and downright troublesome.

On Monday, for example, the April industrial production figures suggested that the economy was still extremely weak. Production in March was revised downwards by a significant amount, after which April's figure showed a minimal 0.1 per cent rise — albeit the first increase for about six months. The capacity utilisation rate, however, dropped from 78.5 per cent to 78.3 per cent. That, in short, seemed to spell a bearish scenario for the economy, and a moderately bullish one for bonds.

But on Tuesday, there was a very large upward revision in the March retail sales figures. The Commerce Department, which had originally talked of sales falling by eight tenths of a percentage point, had redone the calculations and decided that this was really a rise of four tenths. April's decline from this revised figure was also minimal — just one tenth — and well below analysts' forecasts. In sharp contrast to the previous day's news, this looked bullish for the economy.

So, shuffling off some more encouraging inflation data, the bond market did a mental somersault, and a wave of selling set in.

Wednesday offered a brief respite from the statistical rain. But on Thursday, a further

## US MONEY MARKET RATES (%)

	1 week	1 month	3 months	6 months	12 months
Fed Funds weekly average	5.52	5.50	5.50	5.50	5.50
Three-month Treasury bill	5.52	5.50	5.50	5.50	5.50
Three-month commercial paper	5.52	5.50	5.50	5.50	5.50
Three-month Treasury note	5.52	5.50	5.50	5.50	5.50
Three-month commercial paper	5.52	5.50	5.50	5.50	5.50

## US BOND PRICES AND YIELDS (%)

	Yield	Price	Yield	Price
Three-month Treasury	5.52	100.00	5.52	100.00
Three-month Treasury note	5.52	100.00	5.52	100.00
Three-month commercial paper	5.52	100.00	5.52	100.00
Three-month Treasury bill	5.52	100.00	5.52	100.00
Three-month commercial paper	5.52	100.00	5.52	100.00

Money supply: In the week ended May 8, M1 rose by 20.4bn to \$248.8bn.

reading of conflicting runes got underway. On the one hand, the annual rate of housing starts increased by 6.3 per cent in April. This may not amount to a boom but, as one brokerage house commented, it does suggest that "the industry is clearly showing signs of stabilisation." But then again, initial claims for state unemployment insurance rose by 4,000 in the week ended May 4, suggesting that the corporate sector is still attempting to retrench.

So what does it all add up to? In bond market terms, oscillating prices and little progress. By the end of the week, the 30-year benchmark Treasury bond was showing a change of 1/4 at 98 1/4 from the previous week's close of 98 1/4 compared with 8.31 per cent.

Out in the real world, there is certainly a sizeable squad of corporate executives who pitch towards the gloomier scenario.

ters of recovery from the current recession," they state. This would compare with a minimum growth rate of 5.4 per cent during the "recovery" period in the first eight post-World War Two recessions.

If all that is open to the economists to debate, at least the laws of supply and demand are indisputable. There is no question that the recent supply of stock, following \$370m-worth of refunding sales, continued to bedevil the Treasury market.

And the position is unlikely to improve. Next week the authorities will again offer debt on four of the five trading days. This time, the emphasis will be on the short to medium-term end of the market; included in the sales are \$150m of two-year notes and \$250m of five-year notes. As Salomon Brothers points out: "These auctions may appeal to a variety of financial institutions, both domestic and foreign, as well as to investors seeking shelter from a nervous bond market or those who hold out hope that the Fed may loosen credit one more notch." But the pundits are quick to add that "the market may need much more help in the form of favourable economic news to absorb this new rush of supply."

On that score at least, there will be little forthcoming next week. The statistical deluge ceases, and everyone will be left to wonder about the economy's progress in silence.

Nikki Tait

## GERMAN BONDS

## Calm reaction to Bundesbank reshuffle

ANYONE but a stability-oriented central banker might have been faintly miffed that the currency he had loyally defended for 11 years should actually strengthen on confirmation of his departure.

But Mr Karl Otto Pöhl, who on Thursday ended weeks of rumours predicting his resignation, attributed the markets' "calmness" to the fact that "they, correctly, believe there will be no change of policy under a new president."

Mr Pöhl's insistence that he leaves entirely for personal reasons proved to be the justification markets were looking for — and, even if dealers did not buy the story entirely, there was an element of relief that personal tensions between Mr Pöhl and the government would be over.

In a day of heavy trading as resignation rumours intensified last Tuesday, bond prices dipped briefly below 85.00, but

recovered over the rest of the week.

The D-Mark, meanwhile, seems to have shaken off much of the gloom attached to it after Easter. Since the dollar's recent high of DM1.78 before his departure, the German currency has improved, and more significantly for foreign bond investors, there has been a sharp drop in exchange rate volatility.

Germany has also been helped by the downward drift of interest rates elsewhere in Europe. This has eased pressure previously building on the Bundesbank to squeeze short-term interest rates a notch higher.

The general stability of the bond market is partly a tribute to the relative success with which the government continues to manage its extremely heavy borrowing programme. Despite the welter of gloomy news from eastern Germany

and tough times for the ruling coalition in Bonn, the latest 10-year bund carries an 8% coupon when at the turn of the year dealers were struggling to sell new paper with a 9 per cent coupon.

A broadening range of instruments and issuing techniques has played a role in furthering market depth, liquidity and hence price stability. A further addition to the government's armoury will be tested next Wednesday with the first tender of "Bundes-schatzwechselungen".

The bund issues paper into liquid markets at the five and 10-year part of the yield curve; the T-notes will fill out the shorter portion between two and four years.

The instrument itself is not new, but previously issues were sold infrequently and in variable amounts. Now an American-style price auction system is to be instituted every other month, the latest indica-

tion that German techniques are edging towards the full US calendar auction system. The market expects a first tranche of DM4-DM8bn, with the central bank keeping around DM250m for intervention.

What investors still have to ponder is whether they really believe Mr Pöhl. As often, domestic players are more sanguine than international observers that the likely Schlesinger/Tietmeyer succession will herald an unchanged performance at the Bundesbank.

Having already voluntarily checked in the most valuable weapon of all — the threat to go if the government produces a reorganisation plan inimical to the Bundesbank — could it be that Mr Pöhl waited to announce his resignation until he had a nod from Bonn that the reshuffle would largely meet his specifications?

Katharine Campbell

## FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Yield	Price	U.S. DOLLAR STRAIGHT	Yield	Price
ALBERTA 1991/92	10.00	100.00	ALBERTA 1991/92	10.00	100.00
ALBERTA 1992/93	10.00	100.00	ALBERTA 1992/93	10.00	100.00
ALBERTA 1993/94	10.00	100.00	ALBERTA 1993/94	10.00	100.00
ALBERTA 1994/95	10.00	100.00	ALBERTA 1994/95	10.00	100.00
ALBERTA 1995/96	10.00	100.00	ALBERTA 1995/96	10.00	100.00
ALBERTA 1996/97	10.00	100.00	ALBERTA 1996/97	10.00	100.00
ALBERTA 1997/98	10.00	100.00	ALBERTA 1997/98	10.00	100.00
ALBERTA 1998/99	10.00	100.00	ALBERTA 1998/99	10.00	100.00
ALBERTA 1999/00	10.00	100.00	ALBERTA 1999/00	10.00	100.00
ALBERTA 2000/01	10.00	100.00	ALBERTA 2000/01	10.00	100.00
ALBERTA 2001/02	10.00	100.00	ALBERTA 2001/02	10.00	100.00
ALBERTA 2002/03	10.00	100.00	ALBERTA 2002/03	10.00	100.00
ALBERTA 2003/04	10.00	100.00	ALBERTA 2003/04	10.00	100.00
ALBERTA 2004/05	10.00	100.00	ALBERTA 2004/05	10.00	100.00
ALBERTA 2005/06	10.00	100.00	ALBERTA 2005/06	10.00	100.00
ALBERTA 2006/07	10.00	100.00	ALBERTA 2006/07	10.00	100.00
ALBERTA 2007/08	10.00	100.00	ALBERTA 2007/08	10.00	100.00
ALBERTA 2008/09	10.00	100.00	ALBERTA 2008/09	10.00	100.00
ALBERTA 2009/10	10.00	100.00	ALBERTA 2009/10	10.00	100.00
ALBERTA 2010/11	10.00	100.00	ALBERTA 2010/11	10.00	100.00
ALBERTA 2011/12	10.00	100.00	ALBERTA 2011/12	10.00	100.00
ALBERTA 2012/13	10.00	100.00	ALBERTA 2012/13	10.00	100.00
ALBERTA 2013/14	10.00	100.00	ALBERTA 2013/14	10.00	100.00
ALBERTA 2014/15	10.00	100.00	ALBERTA 2014/15	10.00	100.00
ALBERTA 2015/16	10.00	100.00	ALBERTA 2015/16	10.00	100.00
ALBERTA 2016/17	10.00	100.00	ALBERTA 2016/17	10.00	100.00
ALBERTA 2017/18	10.00	100.00	ALBERTA 2017/18	10.00	100.00
ALBERTA 2018/19	10.00	100.00	ALBERTA 2018/19	10.00	100.00
ALBERTA 2019/20	10.00	100.00	ALBERTA 2019/20	10.00	100.00
ALBERTA 2020/21	10.00	100.00	ALBERTA 2020/21	10.00	100.00
ALBERTA 2021/22	10.00	100.00	ALBERTA 2021/22	10.00	100.00
ALBERTA 2022/23	10.00	100.00	ALBERTA 2022/23	10.00	100.00
ALBERTA 2023/24	10.00	100.00	ALBERTA 2023/24	10.00	100.00
ALBERTA 2024/25	10.00	100.00	ALBERTA 2024/25	10.00	100.00
ALBERTA 2025/26	10.00	100.00	ALBERTA 2025/26	10.00	100.00
ALBERTA 2026/27	10.00	100.00	ALBERTA 2026/27	10.00	100.00
ALBERTA 2027/28	10.00	100.00	ALBERTA 2027/28	10.00	100.00
ALBERTA 2028/29	10.00	100.00	ALBERTA 2028/29	10.00	100.00
ALBERTA 2029/30	10.00	100.00	ALBERTA 2029/30	10.00	100.00
ALBERTA 2030/31	10.00	100.00	ALBERTA 2030/31	10.00	100.00
ALBERTA 2031/32	10.00	100.00	ALBERTA 2031/32	10.00	100.00
ALBERTA 2032/33	10.00	100.00	ALBERTA 2032/33	10.00	100.00
ALBERTA 2033/34	10.00	100.00	ALBERTA 2033/34	10.00	100.00
ALBERTA 2034/35	10.00	100.00	ALBERTA 2034/35	10.00	100.00
ALBERTA 2035/36	10.00	100.00	ALBERTA 2035/36	10.00	100.00
ALBERTA 2036/37	10.00	100.00	ALBERTA 2036/37	10.00	100.00
ALBERTA 2037/38	10.00	100.00	ALBERTA 2037/38	10.00	100.00
ALBERTA 2038/39	10.00	100.00	ALBERTA 2038/39	10.00	100.00
ALBERTA 2039/40	10.00	100.00	ALBERTA 2039/40	10.00	100.00
ALBERTA 2040/41	10.00	100.00	ALBERTA 2040/41	10.00	100.00
ALBERTA 2041/42	10.00	100.00	ALBERTA 2041/42	10.00	100.00
ALBERTA 2042/43	10.00	100.00	ALBERTA 2042/43	10.00	100.00
ALBERTA 2043/44	10.00	100.00	ALBERTA 2043/44	10.00	100.00
ALBERTA 2044/45	10.00	100.00	ALBERTA 2044/45	10.00	100.00
ALBERTA 2045/46	10.00	100.00	ALBERTA 2045/46	10.00	100.00
ALBERTA 2046/47	10.00	100.00	ALBERTA 2046/47	10.00	100.00
ALBERTA 2047/48	10.00	100.00	ALBERTA 2047/48	10.00	100.00
ALBERTA 2048/49	10.00	100.00	ALBERTA 2048/49	10.00	100.00
ALBERTA 2049/50	10.00	100.00	ALBERTA 2049/50	10.00	100.00
ALBERTA 2050/51	10.00	100.00	ALBERTA 2050/51	10.00	100.00
ALBERTA 2051/52	10.00	100.00	ALBERTA 2051/52	10.00	100.00
ALBERTA 2052/53	10.00	100.00	ALBERTA 2052/53	10.00	100.00
ALBERTA 2053/54	10.00	100.00	ALBERTA 2053/54	10.00	100.00
ALBERTA 2054/55	10.00	100.00	ALBERTA 2054/55	10.00	100.00
ALBERTA 2055/56	10.00	100.00	ALBERTA 2055/56	10.00	100.00
ALBERTA 2056/57	10.00	100.00	ALBERTA 2056/57	10.00	100.00
ALBERTA 2057/58	10.00	100.00	ALBERTA 2057/58	10.00	100.00
ALBERTA 2058/59	10.00	100.00	ALBERTA 2058/59	10.00	100.00
ALBERTA 2059/60	10.00	100.00	ALBERTA 2059/60	10.00	100.00
ALBERTA 2060/61	10.00	100.00	ALBERTA 2060/61	10.00	100.00
ALBERTA 2061/62	10.00	100.00	ALBERTA 2061/62	10.00	100.00
ALBERTA 2062/63	10.00	100.00	ALBERTA 2062/63	10.00	100.00
ALBERTA 2063/64	10.00	100.00	ALBERTA 2063/64	10.00	100.00
ALBERTA 2064/65	10.00	100.00	ALBERTA 2064/65	10.00	100.00
ALBERTA 2065/66	10.00	100.00	ALBERTA 2065/66	10.00	100.00
ALBERTA 2066/67	10.00	100.00	ALBERTA 2066/67	10.00	100.00
ALBERTA 2067/68	10.00	100.00	ALBERTA 2067/68	10.00	100.00
ALBERTA 2068/69	10.00	100.00	ALBERTA 2068/69	10.00	100.00
ALBERTA 2069/70	10.00	100.00	ALBERTA 2069/70	10.00	100.00
ALBERTA 2070/71	10.00	100.00	ALBERTA 2070/71	10.00	100.00
ALBERTA 2071/72	10.00	100.00	ALBERTA 2071/72	10.00	100.00
ALBERTA 2072/73	10.00	100.00	ALBERTA 2072/73	10.00	100.00
ALBERTA 2073/74	10.00	100.00	ALBERTA 2073/74	10.00	100.00
ALBERTA 2074/75	10.00	100.00	ALBERTA 2074/75	10.00	100.00
ALBERTA 2075/76	10.00	100.00	ALBERTA 2075/76	10.00	100.00
ALBERTA 2076/77	10.00	100.00	ALBERTA 2076/77	10.00	100.00
ALBERTA 2077/78	10.00	100.00	ALBERTA 2077/78	10.00	100.00



## INTERNATIONAL CAPITAL MARKETS

## SYNDICATED LOANS

## Hanson would need to cast its net wide

"MATHEMATICALLY possible, but practically far from easy." That assessment, from a senior official at a US bank, sums up the conventional wisdom among most international bankers about Hanson's ability to raise the necessary funds for a cash bid for ICL.

Nobody would stick his neck out and declare it impossible, however. Assuming that most of Hanson's more than \$70m in cash is accessible - an assumption which most bankers would not be willing to make at this stage - Hanson would need an estimated \$50m from banks to fund a cash bid.

If Hanson was willing to pay the necessary premium to banks and did not care too much about which banks were providing the money, it would have a fighting chance of being able to muster an underwriting group.

According to an official at a European bank, enough non-British banks would, if paid enough, be willing to underwrite a big Hanson loan. A more general syndication would then await the success of the bid, when some obstacles to banks providing finance would have fallen away. Still, according to bankers, Hanson could not take success for granted for a number of reasons.

## EUROMARKET TURNOVER (\$m)

Primary Market	Secondary Market	Overseas	Total
US\$ 1,210.0	364.5	70.0	1,644.5
DM 1,210.0	364.5	70.0	1,644.5
Yen 1,210.0	364.5	70.0	1,644.5
Other 1,210.0	364.5	70.0	1,644.5
US\$ 1,210.0	364.5	70.0	1,644.5
DM 1,210.0	364.5	70.0	1,644.5
Yen 1,210.0	364.5	70.0	1,644.5
Other 1,210.0	364.5	70.0	1,644.5

Week to May 14, 1991. Source: AIBD

directly in line of political fire. It is unlikely the Bank of England would stand idle, particularly if the government decided a bid was politically too hot to handle.

On the other hand, Hanson itself has carefully cultivated a wide group of banks inside and outside the UK. Because of this, Chemical Bank - which bankers guess would lead any financing - would find it easier to gather support than did Bankers Trust for the \$120m consortium bid for BAT Industries first mooted in 1989 by a group led by Sir James Goldsmith.

● **Leverage.** It is conceivable - even likely - that US regulators would define the bid as a highly-leveraged transaction (H.L.T.). This would put off some hard-pushed potential US lenders. A transaction which results in a corporate leverage ratio - defined as total liabilities divided by total assets - of 75 per cent or more is an H.L.T. So is one where the liabilities of the company are doubled and a leverage ratio of 50 per cent results.

● **Some banks, albeit a shrinking group, will not back hostile takeover bids.** "Japanese banks don't like hostile bids," said one Japanese banker last week.

Against this background, the less Hanson has to raise from banks, the easier its task will be. Hanson's chances would be increased if it could line up potential buyers for parts of ICL's business. A powerful ally would also be able to bring in other potential lenders.

Elsewhere, reversing the pattern of last year, UK borrowers remain subdued in the international bank lending market, but a number of deals emerged in continental Europe.

Preussag, the German engineering company, is raising a DM500m, five-year revolving credit through Westdeutsche Landesbank, a prominent shareholder. Avesta of Sweden is seeking a \$100m term loan over three years through Manufacturers Hanover, SE Banker and Swiss Bank at an interest margin of 55 basis points. Isewimer, the Italian co-operative credit institution, is looking for \$150m over five years via Bank of America at a margin of 35 basis points.

Stephen Fidler

## AIBD ANNUAL MEETING

## Failure to concentrate brings failure and success

THE BOARD of the Association of International Bond Dealers met with both failure and success, when members rejected a fee increase but approved a change of name, at the group's annual general meeting in Hong Kong.

Fears that there would not be a quorum proved unfounded, as attendance, at 62 per cent, was higher than in Amsterdam last year. But the AIBD seems unable to inspire its members to concentrate on the issues in hand. Throughout

the meeting, fewer than half a dozen of the more than 500 who attended asked a question or raised a point.

Also at the meeting on Friday, Cedel announced its decision to accept, with certain conditions, proposals by Euroclear, ending the long running dispute between the two Euro-bond clearing houses on how to exchange settlement information.

The announcement by Mr Andre Lussat, Cedel's chairman, followed a strongly worded speech by Mr William Watt,

who as chairman of the AIBD's Market Practices Committee has tried to mediate between the two sides.

Three of the four proposals made by the AIBD board were accepted at the meeting.

The first, to change the AIBD's name to the International Securities Market Association with effect from January 1992, was designed to reflect the broadening constituency of the group and to prove its credibility in lobbying for industry concerns, e.g. in the realm of Euro-

pean Community legislation. The second proposal contained two elements, which many members felt should have been split. A proposal to protect members from liability to losses sustained by the association was linked to an increase in the annual membership fee from SF75,000 to a range of SF75,000 to SF100,000.

A fee increase, often a contentious issue, was last rejected at the AIBD's Dallas meeting in 1988. This year, many members simply felt unwilling to pay up, with the

AIBD in much improved financial shape, while their own firms are facing hard times. Some also resented what they felt was the carrot and stick approach of linking liability protection to higher fees.

But Mr John Langton, chief executive of the AIBD, pointed out that the issues were linked under Swiss law because the range of fees was needed to cover some potential liabilities. "I do not think a lot of people understood the legal implications or niceties," said Mr Langton.

Two other board proposals were carried out without demur. One, to institute a right of appeal for firms which are refused membership, should increase the AIBD's chances of being recognised by the European Community. The lack of such a process "smacked of cartel," Mr Langton admitted. Members also voted to increase the number of proxies allowed at annual meetings, in order to improve representation.

Tracy Corrigan

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Credit Lyonnais	300	1998	7	8 1/4	100.90	Credit Lyonnais	8.574
ANZ Banking Corp	200	1994	3	(0)	100	SBC	-
GECCO	100	1998	8 1/2	8 1/2	100.40	Kidder Peabody Int.	8.528
St. Cr. Co. Ltd. Tel. Ser. A	1.50n	1998	5	8 1/2	98.15	Salomon Bros.	8.717
St. Cr. Co. Ltd. Tel. Ser. B	1.50n	1998	5 1/2	8 1/2	98.15	Salomon Bros.	8.717
Export-Import Bank of Japan	250	2001	10	8 1/2	98.88	LTCS Int.	8.772
Nestle Holdings Inc.	200	1998	7	5 1/2	100	UBS Phillips & Drew	8.575
Canon Inc.	370	1995	4	4	100	Yamachi Int.	4.000
Total Kyoto Co.	100	1995	4	4	100	Nomura Int.	4.000
Barclays Nat. Am. Can. Cap.	500	2021	30	9 1/4	99.70	Goldman Sachs	9.781
Japan Storage Battery	20	1998	5	(V)	100.20	Mitsubishi Finance	-
STERLING							
Tokyo Electric Power	150	2001	10	11	101.95	CSFB	10.773
Mitsubishi Corp. No. 4 A1	100	2025	(d)	(d)	100	CSFB	-
Mitsubishi Corp. No. 4 A2	100	2035	(e)	(e)	100	CSFB	-
Woolwich Bldg. Society	100	1998	5	(n)	100	Deutsche Bk. Cap. Mkts.	-
ECUs							
Bank of Greece	400	1998	7	10 1/4	99.80	CSFB	10.333
Compagnie Bancaire	200	1998	5	9 1/2	101.575	Paribas Capital Mkts.	8.970
LCB Baden-Wuert.	100	1995	4	9	101.425	Deutsche Bk. Cap. Mkts.	8.564
CANADIAN DOLLARS							
GECCO	150	1998	5	10	101.49	Goldman Sachs	8.811
Ville de Montreal	100	1998	7	10 1/4	101.475	Wood Gundy	10.443
Oesterreichische K. Bank	150	1994	3	10	101.525	IBJ Int.	9.383
Tokyo Electric Power Co.	250	2001	10	10 1/2	101.575	Wood Gundy	10.241
Credit National	150	1998	7	10 1/2	101.80	Bankers Trust Int.	10.026
Total Cie. Fr. d'Hydrocarb.	100	1998	5	10 1/2	101.85	Deutsche Bk. Cap. Mkts.	10.054
AUSTRALIAN DOLLARS							
Tasmanian Public Fin. Corp.	50	2001	10	12 1/4	100.30	Deutsche Bk. Cap. Mkts.	12.186
GMAC Australia Finance	75	1998	5	11 1/4	101 1/4	Hambros Bank	11.408
FRENCH FRANCS							
Societe Generale	500	2001	10	(s)	100	Societe Generale	-
D-MARKS							
Nichil Co. (a)	500	1995	4	4	100	Deutsche Bank	4.000
Dado Metal	35	1995	4	4	100	Yamachi Int. GmbH	4.000
Republic of Turkey	350	1995	5	10 1/2	100 1/2	Commerzbank	10.357
Sumitomo Chemical	250	1998	7	5 1/2	100	Daiwa Europe GmbH	5.500
Renown Look Inc.	70	1995	5	4 1/2	100	Deutsche Bank	4.000
DSL Bank	50	1994	3	10	100 1/4	Schlesinger Bk. Verein.	9.700
Canon Inc.	600	1995	4	4	100	Deutsche Bank	4.000
Mitsui Co.	100	1995	4	4	100	Nomura Europe GmbH	4.000
SWISS FRANCS							
Tasaki Shingyo	100	1998	-	3 1/4	100	Banco Del Gottardo	3.375
Miba Industrial Co.	80	1998	-	7 1/4	98 1/4	Swiss Volksbank	7.311
DSL Bank	30	1998	-	8 1/4	101 1/4	Swiss Volksbank	6.301
BORROWERS							
ElBij	200	1999	-	6 1/2	102 1/4	Credit Suisse	8.259
Credit Comm. de France	150	2001	-	7 1/4	102	Credit Suisse	8.966
Bque. Nationale de Paris	75	1994	-	7 1/4	102 1/4	SG Warburg Soditic	8.402
GECCO	75	1998	-	8 1/2	102	Bque. Paribas (Suisse)	8.272
Mobil Ausl. Fin.	100	1998	-	8 1/4	101 1/4	SSC	8.331
Okobank	75	1998	-	7	102	J. Henry Schroder Bank	6.519
ABB Capital BV	75	1994	-	7 1/4	102	Credit Suisse	8.372
PESETAS							
Republic of Ireland	100n	1998	7	11.80	101.70	Bco. Bilbao Vizcaya	11.434
LIRE							
Ford Motor Credit Co.	150bn	1995	4	12 1/4	101 1/4	Banco di Roma	11.718
FINNISH MARKKA							
Finnish Export Credit	300	1994	3	11 1/2	101 1/2	Postipankki	11.039
Deutsche Bk. Fin. (Curaçao)	300	1996	5	11 1/4	101.80	Deutsche Bk. Cap. Mkts.	10.768
GUILDERS							
Nationale Inv. teringebk.	150	1996	5	9	101.15	SBC Inv. Bk.ing. NV	8.707
SWEDISH KRONOR							
Nordic Inv. Bank	400	1998	7	11.4	(u)	Bk. of Tokyo Cap. Mkts.	-
YEN							
World Bank	50n	2001	10	8 1/4	98.65	Nomura Int.	8.799
Bridgestone Corp.	200n	2001	10	7 1/4	101 1/4	Nikko Secs.	7.071
Bridgestone Corp.	200n	1998	8	7 1/4	101 1/4	Yamachi Int.	7.040
Bridgestone Corp.	200n	1998	7	7 1/4	101 1/4	Nomura Int.	7.041
Bridgestone Corp.	200n	2000	9	7 1/4	101 1/4	Daiwa Europe	7.058
Tripe Series Ct	40n	1996	5	7 1/4	101 1/4	Toyot Trust Int.	7.289
Inter-American Devt. Bank	350n	1998	5	7	101 1/4	IBJ Int.	6.688
Royal Bk. of Canada	40n	1992	1	8	100 1/4	Nippon Credit Int.	7.063
LUXEMBOURG FRANCS							
Kbank Int. Fin. NV	20n	1999	8	9 1/4	101.95	KBL	8.778
Vohvo Group Fin. Europe	10n	1994	3.167	9 1/2	102	BIL	8.729
Postipankki	600	1998	7	9 1/4	101.90	Credit European	8.874
Dieteren Trading BV	500	1998	5	9 1/4	101.85	BGL	8.854
Banque UCL	250	1998	6 1/2	9 1/4	101.80	Banque UCL	8.853
IPFA Finance Co. BV	600	1998	7	9 1/4	102.15	BCEE	8.825
Bacab Overseas Fin.	500	1998	8 1/2	9 1/4	101.80	Banque UCL	8.854
Union Bank of Norway	600	1998	5	9 1/4	102	Credit European	8.863

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Moody's Investors Service

FRANKFURT LONDON NEW YORK PARIS SAN FRANCISCO SYDNEY TOKYO

May 1991  
This announcement appears as a matter of record only



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The Fuji Bank, Limited  
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Guide to pricing of Authorised Unit Trusts. Compiled with the assistance of Lauto S.

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs. The charge is calculated as a percentage of the net asset value of the units.

OFFER PRICE: Also called bid price. The price at which units are bought by investors.

BID PRICE: Also called offer price. The price at which units are sold by investors.

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Dr. J. M. L. S.



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July 11, 1965



## CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

## No general cut yet

POLITICS AND inflation dominated the foreign exchange last week, until the dollar received a late boost from technicalities involved in the Swedish krona's linkage to the European currency unit.

UK clearing bank base lending rate 12 per cent from April 12, 1991

There is not much US economic news this week and the spotlight is likely to stay on members of the European exchange rate mechanism. A cut of 1/2 point to 3 1/2 per cent in the Bank of Spain's money market intervention rate, the main instrument of monetary policy, led to speculation that the Bank of France and Bank of England might follow suit, but there is reason to suggest that the general lowering of rates will have to wait a little longer.

Following the rate cut the peseta weakened temporarily, but at the end of the week the Spanish currency was moving

back up towards its ceiling against the lowest placed French franc.

The Bank of France did not immediately follow the Spanish move, possibly not wishing to unsettle the markets as a new French prime minister was appointed.

Pressure from Spain's European partners was believed to be the main reason for an easing of credit policy, but the peseta's reaction indicates that further easing is required to allow France room to cut rates.

Recent reverses for the ruling UK Conservative party suggest that lower bank rates may be needed to restore the government's flagging fortunes, but Friday's inflation news did not encourage such hopes.

As expected the headline year-on-year rate fell sharply, to 6.4 from 6.5 per cent. Nevertheless the underlying rate, stripping out mortgage payments and local taxes, rose to 8.9 from 7.3 per cent, reinforcing the Bank of England's cautious attitude to lower rates.

## C IN NEW YORK

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## CURRENCY MOVEMENTS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## STERLING INDEX

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## CURRENCY RATES

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## FT LONDON INTERBANK FIXING

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## MONEY RATES

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## LONDON MONEY RATES

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## FT-ACTUARIES WORLD INDICES

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## NATIONAL AND REGIONAL MARKETS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## LONDON SHARE SERVICE

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## BRITISH FUNDS - Contd

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## INT. BANK AND O'SEAS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## CORPORATION LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## COMMONWEALTH &amp; AFRICAN LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## GROWING BUSINESS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## FT SURVEYS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

Forward premiums and discounts apply to the US dollar

## MONEY MARKET FUNDS

## Money Market Trust Funds

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## Money Market Bank Accounts

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## RIGHTS OFFERS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## BANK OF ENGLAND TREASURY BILL TENDER

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## WEEKLY CHANGE IN NEW INTEREST RATES

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## FINANCIAL TIMES STOCK INDICES

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## BRITISH FUNDS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## INT. BANK AND O'SEAS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## CORPORATION LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## COMMONWEALTH &amp; AFRICAN LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## GROWING BUSINESS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## FT SURVEYS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## NATIONAL AND REGIONAL MARKETS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## LONDON SHARE SERVICE

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## BRITISH FUNDS - Contd

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## INT. BANK AND O'SEAS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## CORPORATION LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## COMMONWEALTH &amp; AFRICAN LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## LOANS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## GROWING BUSINESS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## FT SURVEYS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	+0.0010
3 months	2.25-2.26	2.24-2.25	+0.01
12 months	7.00-7.01	6.99-7.00	+0.01

## NATIONAL AND REGIONAL MARKETS

May 17	Close	Previous	Change
1 month	1.7100-1.7115	1.7090-1.7100	



## LONDON SHARE SERVICE

[illegible]



● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

[illegible]

35314	17.2%	Western West	-v	54	-1.8	-
35228	0.89%	Kellis Mills. 12p	-v	37	-	-
1794	7.93%	Commare	-v	16%	3.1	-
	0.87%	Human Resources	-v	16	-	-
1464		Whe Sablin Res CS3	-v	10	-	-
4850	9.71%	Mortgage Empl. CS3	-v	77	-1.5	-28.77
	4.04%	North West Exp	-v	12	-	-
3659		W Non-Quest Res	-v	10	-	-
1360		Donr Cold Wilder	-v	80	-3.5	-

[illegible]

by at least two marketmakers and with a normal minimum of 2,000 or more, based on experience of how many of the contracts traded in the typical deal.  $\beta$  Beta refers to all other securities.  $\gamma$  Gamma refers to other traded instruments. Unless otherwise indicated, prices are in pence and denominated in 25p. Yields are based on middle prices, are gross and are ACT of 25 per cent and allow for value of declared dividends and rights.

(D) or premiums (Pm -) to the current pre-closing  
 The NAV basis assumes prior charges at par value,  
 converted and warrants exercised if dilution occurs  
 ● "Tap Stock"  
 1: Interim since reduced, passed or deferred  
 2: Tax-free to non-residents on application  
 3: Not officially UK listed; dealings permitted  
 535(4Xa)

1618	Not officially listed.
1816	Price at time of suspension
2081	Not comparable
2839	Cover allows for conversion of shares not now
2893	dividends or ranking only for restricted dividend
3109	Cover does not allow for shares which may
3114	dividend at a future date.
	No par value

assumption Treasury bill rate stays unchanged until  
stock, c Cents, e Redemption yield, f Flat yield,  
Canadian, E Minimum tender price.  
Abbreviations:  $\Delta$  ex dividend;  $\Delta$  ex scrip issue;  $\Delta$  ex  
all;  $\Delta$  ex capital distribution.

The following is a selection of Regional and Irish latter being quoted in Irish currency.

2399	Craig & Rose E.L.	650	
2399	Finlay Pkg. Sp.	294	
5767	Holt (Jas) 2Sp.	1825	
-			Netton Hides

Cap. 8 1/2% Ltr. 1991	599 1/2	0.1	United Drug.....1
9pc Cap Ltr. 1996..	598 1/2	0.1	
Ftr. 13% 97/02...	\$124 1/4	0.1	
Arnotts.....	165	3.1	

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**TRADITIONAL OPTION**

4763	Industrials	p	PHM
4522	Allied-Lyons	46	Rank Org Ord
	American	7	Rainers
	Aster (BSR)	6	Reed Int'l
			Seas
			SenK. Beecham A.
			TI

2330	SUC Grip	31	Thom
2330	BTR	31	Thorn ENI
2364	Bardley	38	Trust Houses
1062	Blue Circle	24	T&N
2432	Boots	30	Unilever
2463	Bowdler	53	Vickers
2841	Brit Aerospace	56	Wellcome
3104	British Steel	12	
3162	Brit Telecom	29	

4382	Charter Coles	45	<b>Property</b> Brit Land Control Socs Land Securities MEPC Mountleigh
1218	Comm Union	44	
4676	Courtslands	32	
4677	Eurosunnet	58	
1234	FIK	6	
	FNFC	28	
	Gen Accident	48	
	GEC	17	
	Elv	89	
		29	

1782	Guardian	19	
2629	GKN	31	<b>Oils</b>
2630	Hanson	19	Ariva Petrol
2833	Hawker Siddeley	39	Brit Petroleum
3044	ICI	88	Burmah Control
3220	Ladbrooke	22	Conroy Petrol
4087	Legal & Gen	26	Gaelic Res.
4356	Lex Service	30	Premier

1419	Mark & Spencer	21	Ultramar
2322	Midland Bk	18	
	Nat West Bk	27	
	P & O Dtd	51	
2970	Racal Elect	18	
			<b>Mines</b>
			Lotho
			RTZ

This service is available to companies whose shares are traded in the United Kingdom for a fee of £2,150 a year, plus security shares, subject to the Editor's discretion.

1607  
1608  
1609  
1610

**ET Share Service**

The following changes have been made to the FT Share Information Service:

**Additions:** Sutcliffe Speakman (Sutcliffe Chemicals)  
Europe Energy (Industrials)

1237  
0401  
3544  
3766  
3766  
4407

Debtors: Sailama Bank (Bank)  
Touchstone (Electricals)  
Yale & Valor (Industrials)  
Hardanger Prop. (Property)  
Drayton Far East Warrants (Inve  
Trusts)

116%  
1371  
4835

1882
-
2265
2093



**4:00 pm prices May 17**

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG	AH	AI	AJ	AK	AL	AM	AN	AO	AP	AQ	AR	AS	AT	AU	AV	AW	AX	AY	AZ	BA	BB	BC	BD	BE	BF	BG	BH	BI	BJ	BK	BL	BM	BN	BO	BP	BQ	BR	BS	BT	BU	BV	BW	BX	BY	BZ	CA	CB	CC	CD	CE	CF	CG	CH	CI	CJ	CK	CL	CM	CN	CO	CP	CQ	CR	CS	CT	CU	CV	CW	CX	CY	CZ	DA	DB	DC	DD	DE	DF	DG	DH	DI	DJ	DK	DL	DM	DN	DO	DP	DQ	DR	DS	DT	DU	DV	DW	DX	DY	DZ	EA	EB	EC	ED	EE	EF	EG	EH	EI	EJ	EK	EL	EM	EN	EO	EP	EQ	ER	ES	ET	EU	EV	EW	EX	EY	EZ	FA	FB	FC	FD	FE	FF	FG	FH	FI	FJ	FK	FL	FM	FN	FO	FP	FQ	FR	FS	FT	FU	FV	FW	FX	FY	FZ	GA	GB	GC	GD	GE	GF	GG	GH	GI	GJ	GK	GL	GM	GN	GO	GP	GQ	GR	GS	GT	GU	GV	GW	GX	GY	GZ	HA	HB	HC	HD	HE	HF	HG	HH	HI	HJ	HK	HL	HM	HN	HO	HP	HQ	HR	HS	HT	HU	HV	HW	HX	HY	HZ	IA	IB	IC	ID	IE	IF	IG	IH	II	IJ	IK	IL	IM	IN	IO	IP	IQ	IR	IS	IT	IU	IV	IW	IX	IY	IZ	JA	JB	JC	JD	JE	JF	JG	JH	JI	JJ	JK	JL	JM	JN	JO	JP	JQ	JR	JS	JT	JU	JV	JW	JX	JY	JZ	KA	KB	KC	KD	KE	KF	KG	KH	KI	KJ	KK	KL	KM	KN	KO	KP	KQ	KR	KS	KT	KU	KV	KW	KX	KY	KZ	LA	LB	LC	LD	LE	LF	LG	LH	LI	LJ	LK	LL	LM	LN	LO	LP	LQ	LR	LS	LT	LU	LV	LW	LX	LY	LZ	MA	MB	MC	MD	ME	MF	MG	MH	MI	MJ	MK	ML	MM	MN	MO	MP	MQ	MR	MS	MT	MU	MV	MW	MX	MY	MZ	NA	NB	NC	ND	NE	NF	NG	NH	NI	NJ	NK	NL	NM	NN	NO	NP	NQ	NR	NS	NT	NU	NV	NW	NX	NY	NZ	OA	OB	OC	OD	OE	OF	OG	OH	OI	OJ	OK	OL	OM	ON	OO	OP	OQ	OR	OS	OT	OU	OV	OW	OX	OY	OZ	PA	PB	PC	PD	PE	PF	PG	PH	PI	PJ	PK	PL	PM	PN	PO	PP	PQ	PR	PS	PT	PU	PV	PW	PX	PY	PZ	QA	QB	QC	QD	QE	QF	QG	QH	QI	QJ	QK	QL	QM	QN	QO	QP	QQ	QR	QS	QT	QU	QV	QW	QX	QY	QZ	RA	RB	RC	RD	RE	RF	RG	RH	RI	RJ	RK	RL	RM	RN	RO	RP	RQ	RR	RS	RT	RU	RV	RW	RX	RY	RZ	SA	SB	SC	SD	SE	SF	SG	SH	SI	SJ	SK	SL	SM	SN	SO	SP	SQ	SR	SS	ST	SU	SV	SW	SX	SY	SZ	TA	TB	TC	TD	TE	TF	TG	TH	TI	TJ	TK	TL	TM	TN	TO	TP	TQ	TR	TS	TT	TU	TV	TW	TX	TY	TZ	UA	UB	UC	UD	UE	UF	UG	UH	UI	UJ	UK	UL	UM	UN	UO	UP	UQ	UR	US	UT	UU	UV	UW	UX	UY	UZ	VA	VB	VC	VD	VE	VF	VG	VH	VI	VJ	VK	VL	VM	VN	VO	VP	VQ	VR	VS	VT	VU	VV	VW	VX	VY	VZ	WA	WB	WC	WD	WE	WF	WG	WH	WI	WJ	WK	WL	WM	WN	WO	WP	WQ	WR	WS	WT	WU	WV	WW	WX	WY	WZ	XA	XB	XC	XD	XE	XF	XG	XH	XI	XJ	XK	XL	XM	XN	XO	XP	XQ	XR	XS	XT	XU	XV	XW	XX	XY	XZ	YA	YB	YC	YD	YE	YF	YG	YH	YI	YJ	YK	YL	YM	YN	YO	YP	YQ	YR	YS	YT	YU	YV	YW	YX	YY	YZ	ZA	ZB	ZC	ZD	ZE	ZF	ZG	ZH	ZI	ZJ	ZK	ZL	ZM	ZN	ZO	ZP	ZQ	ZR	ZS	ZT	ZU	ZV	ZW	ZX	ZY	ZZ

**Continued on next page**



## FT SURVEYS



## MONDAY INTERVIEW

## Cloaked in the mantle of the past

Ion Iliescu, president of Romania, speaks to Judy Dempsey

The walls of the underground station in central Bucharest are still covered by the same graffiti they were a year ago when Ion Iliescu was elected president of Romania.

The slogan *Jos Iliescu! Jos Ceausescu!* ("Down Iliescu! Down Ceausescu!") used repeatedly to be scrubbed off, but scribbles soon daubed the walls again, as if permanently to taint the president's past and name. These days, nobody bothers to daub or to scrub.

In London last month, Mr Iliescu seemed energetic and enthusiastic - even relieved. It was one of his first visits to western Europe since the December 1989 revolution that toppled the dictator Nicolae Ceausescu.

But in his homeland, the past hangs over Mr Iliescu, who was swept into power on May 20 1990 in the country's first free presidential and parliamentary elections for more than four decades.

His critics say he refuses, and is unable, to discard the mantle of his communist past. His advisers, and the country's young ministers, are more sympathetic and publicly loyal. But even they are acutely aware of the heavy legacy the president has inherited.

"You should not have asked him about the miners," one minister said after the interview. "Iliescu cannot give any answer to those events. He relapses into using old communist reflexes and jargon. He becomes defensive. He knows many people will only remember him for those wretched events."

The "events" took place last June 13-15. In those three days, miners travelled to Bucharest, the capital, ransacked the headquarters of the opposition political parties and unleashed a wave of terror which shocked Romanians - and the international community.

For some extraordinary reason, Iliescu thanked the miners fulsomely. His speech was broadcast on Bucharest radio. "Dear miners," he began, "I thank you very much for everything you have done over these past days... you proved again that you are a powerful force with high civic and workers' discipline. You are a trusty people in good times, but mostly in bad. You proved again how important workers' solidarity is. We were faced with an attempted coup by a force of extreme rightist elements, a coup of an Iron-Guar-

dist, and fascist character." This remarkable speech reveals much about Mr Iliescu's insensitive political antennae. The content belongs to the old regime - one steeped in xenophobia and paranoia. By June, the Romanian president had not yet broken away from the hollow rhetoric of the past. As a result, sympathy for the revolution almost evaporated. Mr Iliescu is now trying to repair the damage.

Discussing the past upsets his good humour. He spreads his hands, swinging them back and forth as he makes his point. These gestures smother his mild manner, soft voice and smiling face. Old rhetoric takes over; he begins to speak quickly.

Those days in June were not normal. This political instability was a legacy of the totalitarian system. Order and security were breaking down. Citizens cannot be accused of this. I was not surprised that the miners came from the Jiu Valley. I was not happy, but I did not invite them."

An anonymous Romanian, who has been filming the interview, hardly moves. Iliescu continues to explain:

"I would have been praised if I had been able to manipulate the miners. But they are tough; they cannot be easily manipulated. They were the first to oppose Ceausescu in 1977. The miners were concerned about the political situation. They wanted to restore order. You must understand that when order no longer exists, citizens themselves are obliged to make order."

After the miners left the capital, Romania's *Libera*, an independent daily, wrote an editorial headed *Morita*. The title comes from a Romanian epic poem which tells the story of three shepherds. Two of them plan to steal the sheep belonging to the third, but the third shepherd is warned by *Morita*, his favourite sheep. However, instead of protecting himself, he becomes defensive. He knows two to kill him. He bows passively to his fate.

Romania's *Libera* editorial asked if the instability and terror in Bucharest showed that Romanians were passively placing their young and fragile country in the hands of a dictator. It wondered if Romanians held a death wish for their democracy. If so, it would only further isolate them from Europe. Was it not time, the paper asked, for Romanians to place



'Maybe democracy will help us over our fatalism'

their trust in democratic institutions, instead of blindly submitting to the country's traditions of fatalism and mysticism?

"The *Morita* - which I learned as a child - has an element of fatalism in it. But then, fatalism is a characteristic of the Romanian people. It protected us against adverse historical conditions. But maybe democracy will allow us to overcome the *Morita*."

To achieve this new outlook, Iliescu believes Europe and the US can help Romania strengthen its democracy and introduce economic reforms.

Over the last six months, the

## PERSONAL FILE

1930 Born, Otleanita, south of Bucharest.

1965 Member of Communist party central committee.

1974-79 Candidate member of Political Executive Committee (roughly equivalent to parliament).

1984 Dropped from central committee.

1989 Leader of National Salvation front which assumed power after Ceausescu overthrown.

1990 Elected president.

government, led by Mr Petre Roman, has drawn up a battery of legislation aimed at paving the way for foreign investment and privatisation. It has already decentralised the economy so as to allow the establishment of private shops and businesses. It has scrapped a number of subsidies, and liberalised prices.

But Mr Iliescu, whose cautious attitude towards economic reforms has been shaped by his communist past, and whose views have often run contrary to the government's more radical policies, says the

country needs credits to finance the reforms and to introduce them.

"The reforms will have a negative effect on living standards. Liberalising prices leads to higher prices. But external credits to finance these reforms are scarce. As a result, it will be difficult for us to normalise the situation."

Mr Iliescu believes a normal Romania, then, they should be a situation would mean, among other things, the US extending most-favoured-nation trading status to Romania.

"I have no intention of criticising the US. But it must be remembered that it was the US which extended most-favoured-nation status to the Ceausescu regime back in the 1970s. And yet the US will not extend it to us. I ask you, why not? If western governments want to see democracy and economic reforms being established in Romania, then they should help us. Stability in Romania is in their interests as well. But they still remain reluctant to help us. I do not understand why."

His advisers say that many western governments could not accept the National Salvation Front's great success in the elections. They thought the Front was a safe-house for former communists.

But despite that victory, the leadership remains bereft of strong, moral figures of integrity who could judge the country out of its ignominious past to a more stable future. That is one of the terrible legacies of the Ceausescu era.

That insidious regime was able to exploit the country's weak political culture, while the secret police, or secret police, could manipulate the population's conformist traditions. As a result, there were no Valeriu Havel or Lech Walesa to transcend the climate of suspicion and lack of truth which

## A man-eater with no teeth

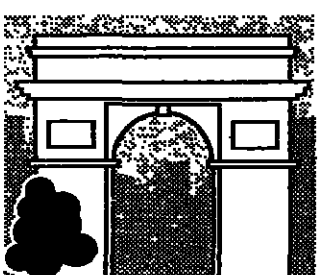
Mrs Edith Cresson, France's new socialist prime minister, has the reputation of being a tough cookie. When she turns up the power on her smile, you believe it for she is a woman which can surely fry oysters at 40 paces. What distinguishes Mrs Cresson from the usual run of tough cookies, however, is that she is also glamorous and charming. Before she fries the oysters, she charms the shells of them.

So you may imagine that, when her appointment was announced last Wednesday, it produced a palpable frisson of anticipation. Here at last, it seemed, was a real carnivorous socialist who would change the world and eat a few Japanese car executives for *déjeuner*. After three years, France seemed to be wearying of the sweet reasonableness of that nice Mr Rocard, the new prime minister seemed likely to provide a more exciting show.

So far, however, the new spectacle has been something of a let-down. On her first day in office, last Thursday, she submitted to a 45-minute TV interview on her future policies. This was generous, but it proved to be a mistake.

In the first place, she was an hour late for a lunch given by President Mitterrand for the Dutch prime minister; not very dignified. Second, she was supposed to be negotiating the formation of her government. This turned out to be just as complicated as she should have known it would be, with every kind of awkward hiccup, and it dragged on embarrassingly until 9 o'clock that night. We thought she was a man-eater, but she turned out to be a carpet-trader without authority.

But the real problem with the TV interview was that it squirted a cold *douche* over our



IAN DAVIDSON on Europe

hopes of excitement. For the over-riding impression it left was that this carnivorous socialist was really all blather and no policy. She was against unemployment and Japanese imports. Social policy was very important, and so was industrial policy. And education and training. So what was she going to do? Well now...

When Mrs Cresson's appointment was announced, 97 per cent of the comments in the press and the political establishment were about the fact that she was a WOMAN, rather than about her policies. We serious chaps were slightly scandalised by this new evidence that the French are hopelessly sexist. But we serious chaps were quite wrong, and not just because sex is a much more interesting subject than policy. The shocking fact about Mrs Cresson's appointment is that it has revealed that in France the post of prime minister is almost wholly unimportant. The political establishment does not care about her policy views, because they are almost irrelevant: on three fronts she is squeezed by constraints so powerful that her freedom of manoeuvre is close to zero.

The first constraint is that

the Fifth Republic is a presidential regime. The constitution says that the government decides policy, but that's for the birds: all the main policy objectives of a socialist government, such as the leading industrial appointments, need the approval of Mr Mitterrand. The second constraint is that the main policy objectives have been set, and are not about to be changed. Centre-piece of these three constraints leaves little room for Mrs Cresson. By instinct she is obviously itching to wage economic war against the Japanese; but it looks as though she has already surrendered every last sliver of that option, in the context of her government.

Mr Pierre Bérégovoy, finance minister, is among the many people she has quarrelled with in the past, and an economic liberal to boot. But since he is the god-father and guarantor of the credibility of the strong franc, it was imperative to keep him. His price for staying was an extension of his powers, to control trade and industry policy.

A wicked cartoon in *Le*

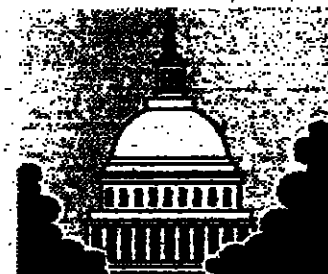
Monde summed up the situation. Mr Mitterrand is holding up a smiling, doll-sized figure of Mrs Cresson, who is completely enclosed in his fist. "I have chosen," he is saying, "a woman with a firm grip."

The constraints on Mrs Cresson's freedom of manoeuvre present the question: what are governments for? In the old days, we used to assume that the primary function of government was the management (or rather, mismanagement) of the economy. British governments have until recently continued to act as if they had the right and the power to debauch the economy and enrich their friends for the sake of electoral advantage. Manifestly, that urge is still strong in London. But membership of the Exchange Rate Mechanism means it must be contained.

The French, by contrast, gave up the freedom to manipulate the economy eight years ago, when they locked onto their anti-inflation strategy. This is the reason the French are in much better shape than the British. In effect, French macro-economic policy is determined in Frankfurt; therefore, the French would prefer to shift the decision centre to Brussels.

As a result, the central preoccupations of the Rocard government were the really recalcitrant structural problems, like unemployment, education, social security, pensions, health, immigration, integration, urban deprivation. The chances are that they will still be the central pre-occupations of the Cresson government, because they demand attention, not some mythical economic crusade against Japan.

## Be grateful for the NHS



MICHAEL PROWSE on America

Reading British newspapers, I see that the government's reforms of the National Health Service are once again sparking controversy. Living in the US helps one appreciate the benefits of socialised medicine. Here the first port of call at a doctor's surgery is often the "cashier" - who checks your financial credentials with the zeal of a chartered accountant. Cash dispensers are routinely located in waiting rooms.

Consider the following items taken at random from a recent eruption of hostile press coverage of US health care:

● A small girl in Chicago breaks her wrist. She is in great pain but does not receive treatment for two days. The reason: her mother lacks health insurance and cannot afford treatment at the local hospital.

● A researcher at a US scientific institute wants to leave her job to spend more time with her children. But she dare not resign. The reason: she has recently been treated for breast cancer and will be uninsurable if she leaves her employers.

You may think these are isolated incidents. The US spends 12.2 per cent of gross national product (about \$680bn) on health care - far more than other comparable countries. (The ratio in Britain is about 6 per cent.) The supply of medicine is entrusted almost entirely to the efficient and entrepreneurial private sector. Vigorous competition is a reality, not an aspiration. Contemporary logic suggests that Americans must, therefore, have the best and most cost-efficient care in the world.

If you have good insurance, the quality of care can certainly be high. The US system values speed and accuracy of diagnosis, short waiting periods, rapid dissemination of new technologies and heavy investment in basic research.

A recent poll indicated that 55 per cent of Americans are "very satisfied with their family's care" compared with 60 per cent in Canada, 45 per cent in (west) Germany and 39 per cent in the UK. But cancer and dementia among the US system's shortcomings are rarely far from the surface.

pervaded the society.

Mr Iliescu believes the struggle towards democracy will be long. "Romanian society is suffering from suspicion. There is an evil. It comes from inside. The main weakness of Romanian society is that we have not yet managed to create a coherent political environment capable of fulfilling the big tasks facing us. There is a hatred among the political forces in the country."

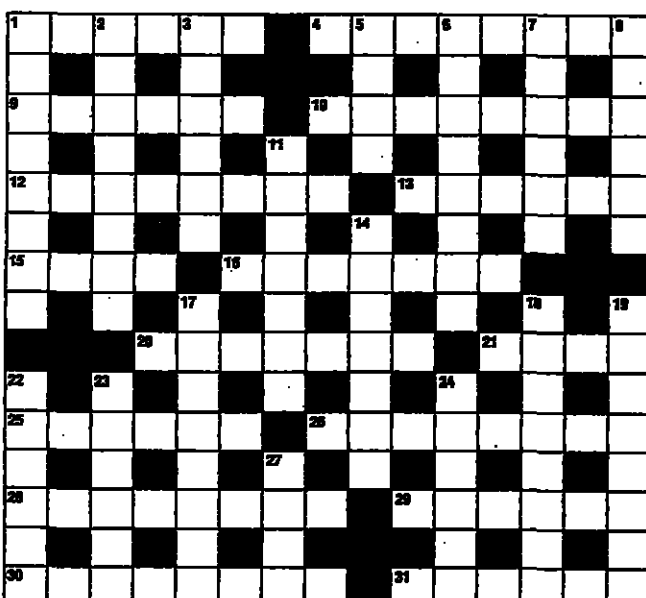
He says he does not know how long the suspicion will last.

"These psychological problems have not been resolved with the overthrow of the old regime in December 1989. The December revolution was part of the east European process. But in Romania, the process had a more violent form. The overthrowing of the former regime was violent. That has left a mark on the subsequent evolution of events. It will take a long time to have normal political relations. Maybe two generations."

JOTTER PAD

## CROSSWORD

No.7,547 Set by PROTEUS



- ACROSS
- Desired objective for sailor to attain (6)
  - Respectably conducted flat (6)
  - Unexpected output on a railway system (6)
  - Outstanding fish or bird (6)
  - Shrink from undertaking (6)
  - Cut in requisition (6)
  - Take a second portion in comfort (4)
  - Region where mercy may be found (7)
  - Talk foolishly about the Spanish clergyman (7)
  - Pretext for lawsuit (4)
  - Left with the hard work (6)
  - Send message (6)
  - Bare girl in dance (6)
  - Dark and inequitable? (6)
  - He is opposed to bringing nurse to soldier (6)
  - Go regularly to listen (6)
- DOWN
- Politician concerned with overall protection perhaps (6)
  - Scarcity prized by some meat-eaters? (6)
  - The realm of the politician in Ireland (6)
  - Animal brought up with children (4)
  - He'll fix it for artist to go round with guide (6)
  - Where money may be found (6)
  - Hoosery ending in narrow point (6)
  - Literal objection of little weight (7)
  - Waste food (7)
  - Model having foreign currency difficulties (6)
  - Event calling for removal of "jumpers" (4,4)
  - Woman kept in without being understood (6)
  - Horse writer (6)
  - Sailor taking girl for holy woman (6)
  - Instrument fixed with internal fasteners (6)
  - Sea-girt territory where I will shortly be heard (4)
- The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 1.

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May 3/4-5  
May 6-7  
May 8-9  
May 10-11  
May 12-13  
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# TURKEY

Monday May 20 1991

Foreign companies see Turkey as a stepping stone to the USSR, Page 2

The crisis on the south-eastern frontier worries the army, Page 5

## SECTION III



**President Ozal believes that only democratic reform can secure Turkey's identity as a modern**

**European state. Few Turks welcome his plans to revamp the constitution but fewer still seem prepared to countenance the alternative.**

**John Murray Brown reports**

## Undecided over reforms

RADICAL reformer or just another able technocrat, Turks could soon have a chance to deliver their own verdict on President Turgut Ozal, the tubby engineer who has run the country since 1989.

After seven years urging the business sector to ever greater endeavours, the Turkish leader is turning his attention to the country's political institutions, in the belief that only democratic reform can secure Turkey's identity as a modern European state, and win the international recognition he feels the country deserves.

With parliament increasingly sidelined, President Ozal is making a direct appeal to liberal public opinion to support a programme which if fully implemented would add up to one of the biggest changes since the founding of modern Turkey, by Kemal Ataturk.

If few Turks welcome the way the president is prepared to overhaul the constitution, fewer still seem prepared to countenance the alternative.

Turkish political life, the management of the economy, even some of the fundamental tenets of Turkish foreign policy seem caught in a state of suspended animation.

Internationally, the picture is equally unresolved. Turkey's friendship with the US has been strengthened by the Gulf war but this cannot compensate for the disappointment served up by the European Community which politely shelved Turkey's application for membership in December 1989. On security, many of the comfortable certainties which once underpinned Turkey's role in western defence thinking are being reviewed.

For all Mr Ozal's lofty pronouncements Turkey's strategic future has still to be shaped, its traditional role as a buffer to Soviet expansionism eclipsed by the warming in East-West relations.

Turkey's membership of the North Atlantic Treaty Organisation has long been a central plank of foreign policy and a vital platform for the government's broader European ambitions. Turkey's concern is not to be locked out of any new security architecture being constructed in Europe, in the wake of the Gulf war.

On the political front, the Motherland party (ANAP) which Mr Ozal founded, seems to have lost its way.

The party displays the all-too-familiar traits of a minority

government sliding inexorably towards electoral defeat. The cabinet is divided, economic policy is in disarray, while the state bureaucracy, once the pillar of ANAP's support, seems demoralised. Perhaps only the failure of the opposition to exploit the situation can salvage the party.

After a decade of unprecedented growth rates, few Turks can say they are more content. The economy is still growing - 9 per cent in 1990. But it suffers the combination of uneven growth, spiralling public deficits and chronically high inflation.

For many Turks inflation provides the most graphic evidence of the government's failure. The rate has rarely slipped below 50 per cent and today is above 60 per cent.

The political reforms envisage lifting the bans on both Islamic and communist political parties. Turkey's Kurds will be able to use their mother tongue - although already allowed in practice it is a move which represents the first gesture towards this troubled minority of 10m people.

Reform of the penal system, the subject of criticism from human rights groups, is envisaged, part of which involves a general amnesty for prisoners. This would appear to include members of the rebel Kurdish Workers Party, a marxist guerrilla group which since 1984 has been fighting for an independent Kurdistan.

Equally important, as part of a range of measures, the Turkish president is orchestrating a campaign which if successful could see the head of state directly elected by the people, a move which would bring Turkey closer to a full presidential system. Linked with the changes the new system envisages increased powers for the executive, in effect legitimising what is already happening in Turkey. In announcing the package, the president probably has one eye on his foreign audience. But Mr Ozal is a politician too. The timing is no doubt shaped by other considerations closer to home, with the president all too aware that a defeat for ANAP in the elections could mean an end to his own political ambitions.

President Ozal's immediate task is to secure the backing



Looking over the Golden Horn towards Eminonu

not just of Turkey's westernised secular middle class but the broad mass of the country's 57m inhabitants almost half of whom still live in rural areas where conservative Islamic values prevail.

In party political terms, the liberalisation programme will be seen as another taunt to the nationalist right-wing thinking

of the ruling Motherland party.

ANAP is struggling to put its house in order. Mrs Semra Ozal, the president's ambitious spouse, has been the focus of bitter bickering after her victory in the all-important ballot for the Istanbul party chairmanship in April.

Ironically, conservatives may well feel their wings fur-

ther clipped after the decision to lift the constitutional ban on Islamic politics, which could lead to defection of more radical ANAP supporters to new Islamic organisations. Convincing those guardians of the secular state, the military, historically an important constituency in Turkish politics, may yet prove the hardest

test. Yet all of this may well be overshadowed unless the government can get to grips with the economy. Mr Ruzd Saracoglu, the central bank governor, and a pivotal figure in Turkey's economic recovery in the 1980s says without a firm commitment to cut the public deficit, he cannot announce a monetary targets for 1991.

The central bank's money programme is largely credited with helping to restrain inflation last year to about 60 per cent.

The privatisation of state companies is making modest headway - the sale of a minority stake in Petkim the state petrochemical concern being the highlight of a rather indifferent year.

Mr Isin Celebi, the economics minister, has promised to end the state monopoly of tobacco. He still has to address the wider problem of farm subsidies, once seen as the universal cure for an ailing agriculture.

A sense of economic drift is spreading. Tused, the businessmen's lobby, is now feeling the effect. Its members are calling for early elections, complaining policy indecision makes budget planning all but impossible.

Meanwhile, unions seem increasingly inclined to challenge the country's restrictive labour laws. Union discontent covers a host of issues from the 60 per cent rate of inflation to opposition to Turkey's role in the war. President Ozal warns that the unions' demands could set the country back 10 years.

The problems are coming home to roost after a decade when wage restraint has provided one of the main factors behind Turkey's export drive.

With the election due in less than 18 months, no one will confidently predict the outcome. The cohabitation within ANAP, a marriage of convenience at the best of times, is looking more than usually strained.

The party meets in June when Mr Yildirim Akbulut is expected to be challenged for the ANAP leadership. A recent opinion poll showed ANAP leading the polls ahead of the conservative True Path party DYP, the Social Democrat SHP, and the leftist party of former

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Philip Halliday

socialist prime minister Bulent Ecevit. Only the fear of many deputies losing their seats is likely to prevent a irreparable split with the ANAP.

At this stage probably the best that ANAP can hope for is a coalition with the DYP. But given Turkey's turbulent political history, with the military intervening three times in the past 30 years, the prospect of a weak coalition hardly commends itself.

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US \$ (thousands)	December 31, 1990	12 months ending Dec 31, 1990
Total Assets	567,219	Net Interest Income 28,962
Shareholders' Equity	67,402	Net Income 15,353
Deposits	199,350	Return on Assets 2.9%
Loans, net	336,890	Return on Equity 27.9%

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## TURKEY 2

## ■ECONOMY: ministers diffuse talk of a crisis

## Gulf war proves to be a mixed blessing

THERE comes a point where it is difficult to tell the electorate that everything is fine while going cap in hand for assistance to your foreign friends. It would be a mistake to overstate Turkey's crisis. In many countries at a similar stage of development it would probably seem a luxury to even debate the need for a medium-term strategy, as the Turks are doing.

Turkey's economy has reached a point where policy is in disarray, ministers are under attack from the state bureaucracy and the fundamental problems of inflation and public debt have to be resolved. "We don't have any crisis today. This is a structural problem," insists Mr Isin Celebi the state minister in charge of the money and credit commission and responsible for the state planning organisation.

Business is certainly leaner and more confident. Corporate Turkey today is moving inexorably towards economic integration with Europe in spite of the continuing political wrangle about full EC membership. In some respects Turkey is still digesting the effects of 10 years of deregulation, as orchestrated by Mr Turgut Ozal first as prime minister and since 1989 as president.

"It's no longer the economy of the 1970s. It's now so responsive to policy mistakes," says a senior western economist.

A run on the currency in the

first week of the Gulf war underlined not just the economy's vulnerability to external shock but also its flexibility in dealing with the problem. All that was required was a call to the German Bundesbank and three hours later Turkey had delivery of DM500m in new banknotes to satisfy demand for hard currency.

The Gulf crisis proved something of a mixed blessing. Estimates vary as to how much Turkey lost. The government puts the figure at about \$5bn, in revenue lost from the Iraqi oil pipeline, and transport and tourist receipts.

Aid flows from Turkey's role in the war have undoubtedly taken some pressure off the balance of payments. According to the treasury, contributions from Turkey's donors, either grants or tied aid soft loans, which must be spent with the lender country - will cover half of the projected \$4bn required in 1991 to service Turkey's \$49bn foreign debt.

The problem is one of timing with much of the aid committed but not yet disbursed. Turkey's foreign exchange reserves stood at about \$10bn in April, enough to cover six months of imports. However, a \$2bn fall in reserves since December suggests the government had trouble meeting repayment schedules.

To help it over the hump, the World Bank is reviewing the disbursement of various sector loans whereby the bank

would take over some of the Turkish portion of the funding.

Bankers expect Turkey to re-enter commercial markets in 1991, where traditionally it has played an important role in Eurobonds. Turkey's last medium-term credit was in early 1990. Since then Turkey's ability to borrow has eroded appreciably. Gulf banks continue to have special problems. While western and Japanese banks are seeking to limit their exposure to meet the Bank of International Settlements capital adequacy ratios.

On the current account, the deficit is expected to stabilise at less than \$3bn for the coming two years. The strong lira policy which resulted in record high trade deficit in 1990 of over \$9bn seems to have run its course. In the first 4 months of 1990, the lira depreciated in real terms against the dollar by more than 30 per cent, which should help exporters.

Turkish interest rates are rising though they continue to be negative in real terms, which has helped reserve position by encouraging inflows of foreign capital.

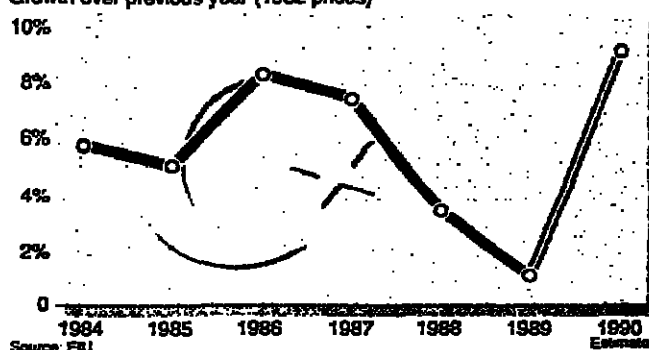
Corporate lending, at least since the start of the year, has more or less dried up, banks preferring to play the foreign exchange markets. However, as the election approaches - it has to be called before the autumn of 1992 - Turkey's main preoccupation will be in managing the public purse.

Mr Celebi is confident the government will be able to reduce the public sector borrowing requirement to 5-6 per cent of GNP over the next two years. Large tax reforms, he says, are unlikely until after the upcoming election. But even without a big adjustment, Mr Celebi believes inflation can be contained at the current level of 50 per cent.

"It's no longer a problem of economics it's a question of physics," says a Turkish banker. "You can build a series of little dams but in the end this won't be enough." The central bank has all but abandoned its monetary pro-

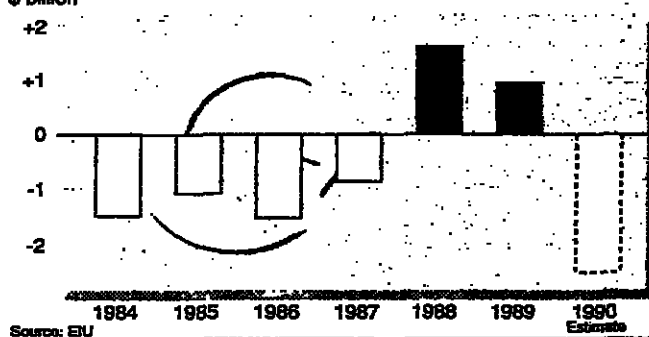
## Real GDP

Growth over previous year (1982 prices)



## Current account

\$ billion



programme - which by keeping the growth of its own balance sheet below nominal GNP was largely responsible for containing inflation to about 50 per cent in 1990.

Unions are displaying a new boldness, taking to streets in the case of the miners' strike in November.

There is talk of cutting farm support, to bring prices closer to international levels. However, ministers concede there will be still a healthy dose of subsidy for the farmers. In what economists say any such move would mean a 20 per cent drop in nominal prices.

On the state enterprises, Turkey is committed to a privatisation. But in an election year, few governments could be expected to set out on a radical programme given the likely effect on employment. Turks may well feel they have seen it all before in the run-up to the election of 1987.

The accumulated deficits of the central government, the state enterprises and the burden of farm support prices stifle the private sector, which President Ozal's reforms were intended to promote. The

FSBR was calculated at about 9 per cent of GNP in 1990 and is targeted to fall to 7.5 per cent this year.

"I have done my side and collected the revenues but the spending side is not that bright," conceded Mr Adnan Kahveci, the finance minister.

The difficulties financing the public deficit are exacerbated by the narrowness of the tax base, the immaturity of Turkish capital markets and the government's concern to contain its foreign borrowing.

Government issues, such as treasury bonds, account for 90 per cent of capital market activity, crowding out the private sector's need for investment funds. This puts upward pressure on interest rates adding further to industry's costs. What the government cannot borrow through treasury bills is borrowed from the central bank, in effect printing money. This, the economists say, is the fundamental cause of Turkey's sustained high inflation, which is sure to be the overriding issue in the forthcoming election.

John Murray Brown

## ■SOVIET TRADE: more than trebled since 1987

## Stepping stone to USSR

NEXT month could see the finalisation in Moscow of the agreement on the Black Sea co-operation zone, a Turkish initiative to forge common policies on issues such as fishing, marine resources transport and free zones.

This is the latest in the web of political bonds which have led to an increase in Turkish-Soviet business. During President Turgut Ozal's visit to Moscow in March to initial a new bilateral co-operation agreement, talks concentrated on a \$200m telecommunications deal, a new \$300m Turk Eximbank credit, the establishment of two joint banks, and the promotion of Turkish agricultural products.

Since 1987 Turkish-Soviet trade has more than trebled to \$1.5bn last year. Turkish contractors have built up a formidable order book. Whether or not they win a share of the reconstruction work in Kuwait, they have become a force to be reckoned with in the Soviet Union with some \$1.5bn-worth of projects either in hand or with secured financing in place.

An increasing number of foreigners see that Turkey, like Finland, can provide a stepping stone to doing business in the Soviet Union.

The critical factor is finance and here Turkish companies have three advantages:

● The Soviets' obligation to spend 70 per cent of the hard currency they receive from exporting natural gas to Turkey on Turkish exports.

● Eximbank which has been extending new loans to

Moscow at a time when the credit lines of other countries are drying up. Since 1989 Turk Eximbank has made \$1bn available and is finalising details for a \$200m food finance facility.

● Extensive experience in dealing with Turkey's bureaucrats which gives them the patience and flexibility to cope with the even more intricate procedures in the Soviet Union, particularly now that the division of authority between the centre and the republics has become blurred.

Add into this the Turks' special links with the 42m Turkic peoples in the Soviet Union in particular in Azerbaijan and the central Soviet republics, and some of the reasons for the Turks' successes become clear.

Exports range from pharmaceuticals, foodstuffs and vegetable oils to iron and steel and telecommunications. The \$300m credit agreed during Mr Ozal's visit may well be used for projects such as a secure line system to improve links between the capitals of the 15 Soviet republics. Netaş and Teletaş the Turkish PTT's joint ventures of Northern Telecom and Alcatel, are discussing a manufacturing link up in the USSR, on the back of their digital switching and transmission equipment operations in Turkey.

Other recent agreements include Sandoz's deal to export over \$100m of sunflower seed to the Soviet Union taking sunflower in payment and a \$215m contract for grain flour and pasta export agreed by the

Turkish Soil Products Office.

On the contracting side, the Turkish company Enka recently opened the renovated Petrovskiy Centre in Moscow and Enkaşahin is restoring the Soviet Ministry of Health. Other companies have been building hospitals, clinics, hotels, housing and factories - and being paid. Turkish companies are involved in consortium talks with German and Finnish companies for projects to rebuild Soviet troops leaving eastern Europe. The Soviets would like them to work with the higher cost German companies on projects to be financed by Bonn's DM7.8bn aid programme.

The \$350m-worth of light industrial projects being financed under a 1990 Turk Eximbank line offer prospects for joint ventures. These are mainly in food processing, particularly for babies.

Some of the Soviet Union's specialists are just starting to eye business opportunities in Turkey. These include work on the Istanbul metro, tunnels on the Adana-Pozanti motorway, and rail electrification.

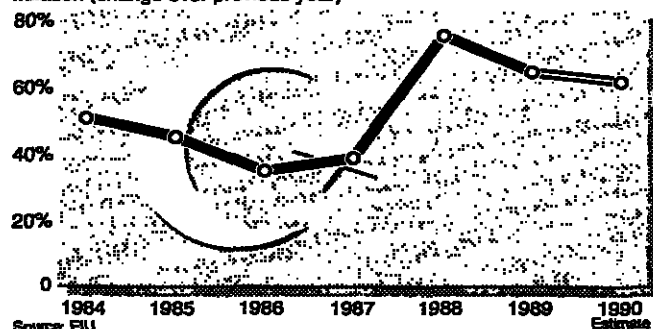
More intriguing is Aeroflot's joint venture with Turkey's Net Holding and Ali Sen. The company, Greenair, is Aeroflot's first foreign link up. The operation is incorporated in Turkey, not the Soviet Union, in view of its more workable commercial regime.

David Tonge

The author is general manager of IBS Istanbul business consultants

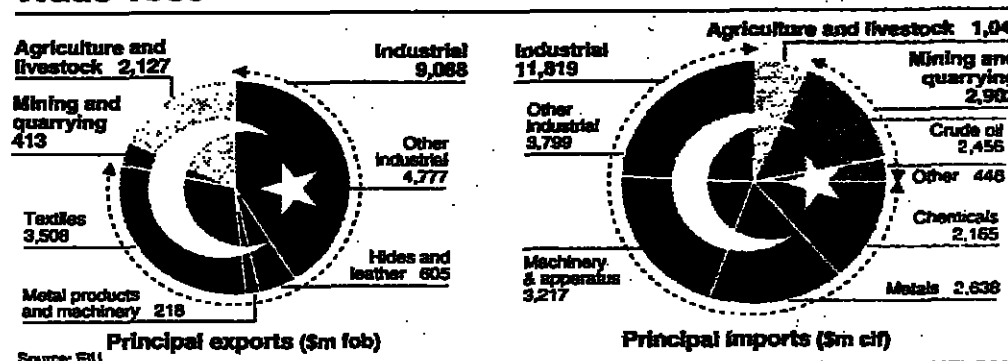
## Consumer prices

Inflation (change over previous year)

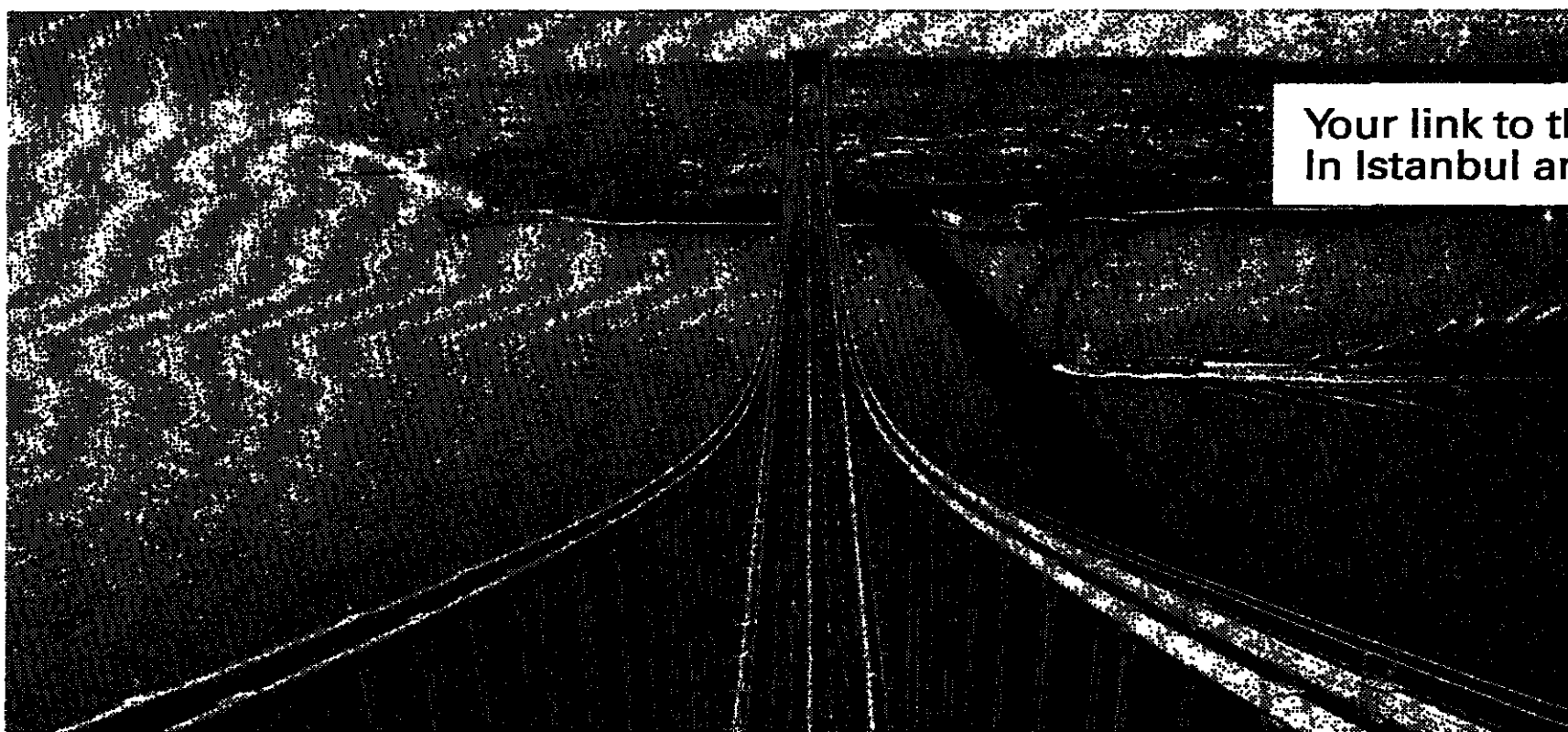


Source: EU

## Trade 1989



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TURKEY 3

■POLITICS: opinion polls suggest all the large parties are out of favour with the voters. David Barchard unravels the mystery

# Lots of questions but very few answers



Players in an electoral conundrum: from left, President Özal and his wife Sema, opposition leaders Demirel and İnönü, presidential candidate Yılmaz and Koceler minister of state and Islamic conservative

GENERAL elections are not due in Turkey until November 1992, most Turks will tell anyone who asks them that this is probably an election year. Ask them who will win, however, and no one can give a clear answer. Mysteriously the opinion polls suggest that all the large parties are out of favour with the voters, while the smaller ones have more or less disappeared off the map. The root cause of this paradox is that President Özal and his Motherland party are deeply unpopular, but even their critics concede that any of the other parties would probably do worse once in power. "I shall probably vote for the social democrats, because that is our family's tradition," says a young Ankara professional woman. "But I have a sneaking admiration for what Özal has achieved, even though I shan't be voting for him." Many middle class Turks with a Western lifestyle tend to think along these lines. The Motherland party formidable set of obstacles to overcome. It won just over 21 per cent of the votes in local elections in 1989 and recent polls suggest that it may have sunk to fourth place with the electorate. High inflation, President Özal's pro-Western foreign policy, the continuing sense that the government is not truly democratic because it inherited power from the military in 1983, the publicity surrounding

the president's family and especially his wife's recent debut in party politics - these are some of the grumbles most commonly heard. The Motherland party is divided on several fronts. On June 16 it is due to elect a new leader to succeed President Özal who resigned in 1989 when he (theoretically at least) left party politics on taking over as head of state. Three candidates have already emerged. There is Mr Mesut Yılmaz, a former foreign minister, who is the candidate of the liberal and nationalist wings of the party, and could probably steal votes from other parties including the social democrats if he were elected.

Mr Yildirim Akbulut, the prime minister, is thought by some to be the candidate most favoured by the president. An outsider is Mr Hasan Celal Güzel, a former education minister, who is at odds with the president. The position is complicated by the fact that the Islamic wing of the Motherland party is in the doldrums after quarrelling with the president over his decision to support his wife, Mr Sema Özal, in her bid to become a party politician. Mr Özal's two younger brothers and his cousin, Mr Hüsnü Doğan, defence minister until he was dismissed last March, are now all in the wilderness. So too, probably, are

three other Islamic conservatives in the cabinet, headed by Mr Mehmet Koceler, minister of state and the man who more than anyone else set up the Motherland party's constituency organisation in 1983. Mrs Özal was elected head of the party's powerful Istanbul organisation on April 29 after a stormy campaign. What will her next move be? Will she expect whoever wins the Motherland party leadership to do her bidding? Will she run for parliament in the elections and perhaps even become a minister if the Motherland party wins? These are questions to which as yet no one in Turkey except the Özals know the answers.

Meanwhile it seems to be generally assumed that the president will persuade parliament to dissolve itself a year early and hold elections. One incentive for doing this is a change in the election law which will increase the number of deputies from 450 to 600, thereby ensuring that a large proportion of members of the present parliament are elected in the next parliament, even if they represent marginal constituencies. What about the other parties? One of the surprises of Turkey in the early 1990s - and perhaps one of the genuinely encouraging signs of change - is that the extremes seem to be fading.

Opinion polls suggest that the Marxist left and the neo-Fascist parties are dwindling, possibly vanishing. Even the ultra-Islamic Welfare party seems to enjoy the support of only 7 per cent of voters (though they may be concentrated in particular areas). Unless the government scraps the 10 per cent barrier, introduced in 1983 by the military, none of the small parties will get even a seat in the next Turkish parliament. That is where the good news ends. For the opinion polls also suggest that the other parties each command only between 27 per cent and 17 per cent of the electorate. The two front runners are Professor Erdal

İnönü's Social Democracy Populist party and Mr Süleyman Demirel's centre-right True Path party. There is little to suggest that either of these parties would run the economy much better than Mr Özal and the Motherland party, though they would probably take a more liberal line on constitutional and human rights issues. At 65, Mr Demirel (six times prime minister since 1965) has a stronger claim than Mr Özal to be Europe's senior figure of the centre-right - but he is no monetarist and has been cold-shouldered by European conservative groups enamoured with Mr Özal, such as the European Democratic Union,

the federation of European centre-right parties. As a result if Mr Demirel does come to power again, after more than a decade in the wilderness, his sights will be firmly set on his domestic constituency. Another loner who could yet make a comeback is Mr Bülent Ecevit, the former prime minister whose Democratic Left party blends populism, socialism, and nationalism. He has been crusading in recent weeks to have foreign troops removed from Turkey. Though Mr Ecevit has broken with the rest of the Turkish left and leads a party which is nakedly personal, he looks poised to get into the next Turkish parliament. Once there, he might hold the balance of power. Because of the fractured state of the party system, the betting is generally that any post-election government will be a coalition, something Turkey has not had since the 1970s. Given the country's disastrous experience then, there have to be considerable doubts about whether the politicians will behave any better this time around. The only thing which unites most of the opposition, is the desire to see Mr Özal (never recognised as president by the other parties) brought down and perhaps even impeached. If the past decade is anything to go by, President Özal may yet manage to turn the tables on his enemies and consolidate his personal power further.

■THE CONSTITUTION: politicians are prepared for change

## Waiting for a call to action

IN a cool dark room in the Turkish Grand National Assembly, Mr Kamil Tugral Cokuguz, president of the TGN's constitutional committee, waits for a possible call to action. For weeks there have been regular reports in the press that President Turgut Özal and other senior leaders are planning an overhaul of Turkey's 1982 Constitution. Some recent legislation assumes that the constitution will be modified. Introduced by the military, and approved by referendum in which only its supporters were allowed to campaign, the 1982 constitution has never found favour with ordinary Turks. The 1982 constitution was only the last in a series of chopping and changing the rules of the Turkish political system. As a result, though there is some consensus on matters such as whether deputies have immunity from prosecution and political parties get state aid, most of the other rules are up for grabs and are liable to be changed whenever there is a government in power with the necessary two-thirds majority, even though Turkish politics today are much less fiercely polarised than they were a decade ago. Since the autumn of 1989, the austere provisions of the 1982 constitution have in some respects not even been honoured in spirit. Though the Turkish president is supposed to be a figure head above party politics, President Özal has ruled Turkey as an executive president with close links with the ruling Motherland party which he founded. His wife is head of its powerful Istanbul organisation. Opposition parties say they will bring Mr Özal before an impeachment tribunal and seek his deposition if they win the next election.

Mr Özal would like to bring the constitution into line with the way he runs the country by making the president directly elected. This would be a break with a 70-year old tradition in which the president was appointed by parliament, thus making sure that the country's powerful civilian and military bureaucracy retained some control over who was appointed. Mr Özal believes so strongly in a directly elected presidency that early this year, according to Turkish press reports, he bought a campaign bus from Mitsubishi in Japan. In March he unveiled some of his ideas for a new constitution to the cabinet. However, there has been no draft presented to parliament. The opposition True Path party, which wants a directly elected presidency but does not recognise Mr Özal's election in 1989 as valid (the opposition parties boycotted the vote) has circulated its own proposals for a change to the constitution, but failed to get the 150 signatures needed for the motion to be set before the assembly. The Social Democracy Peoples party is drafting its own proposals, most of which concentrate on annulling the more authoritarian features of the 1982 constitution. It would like to see the scrapping of the

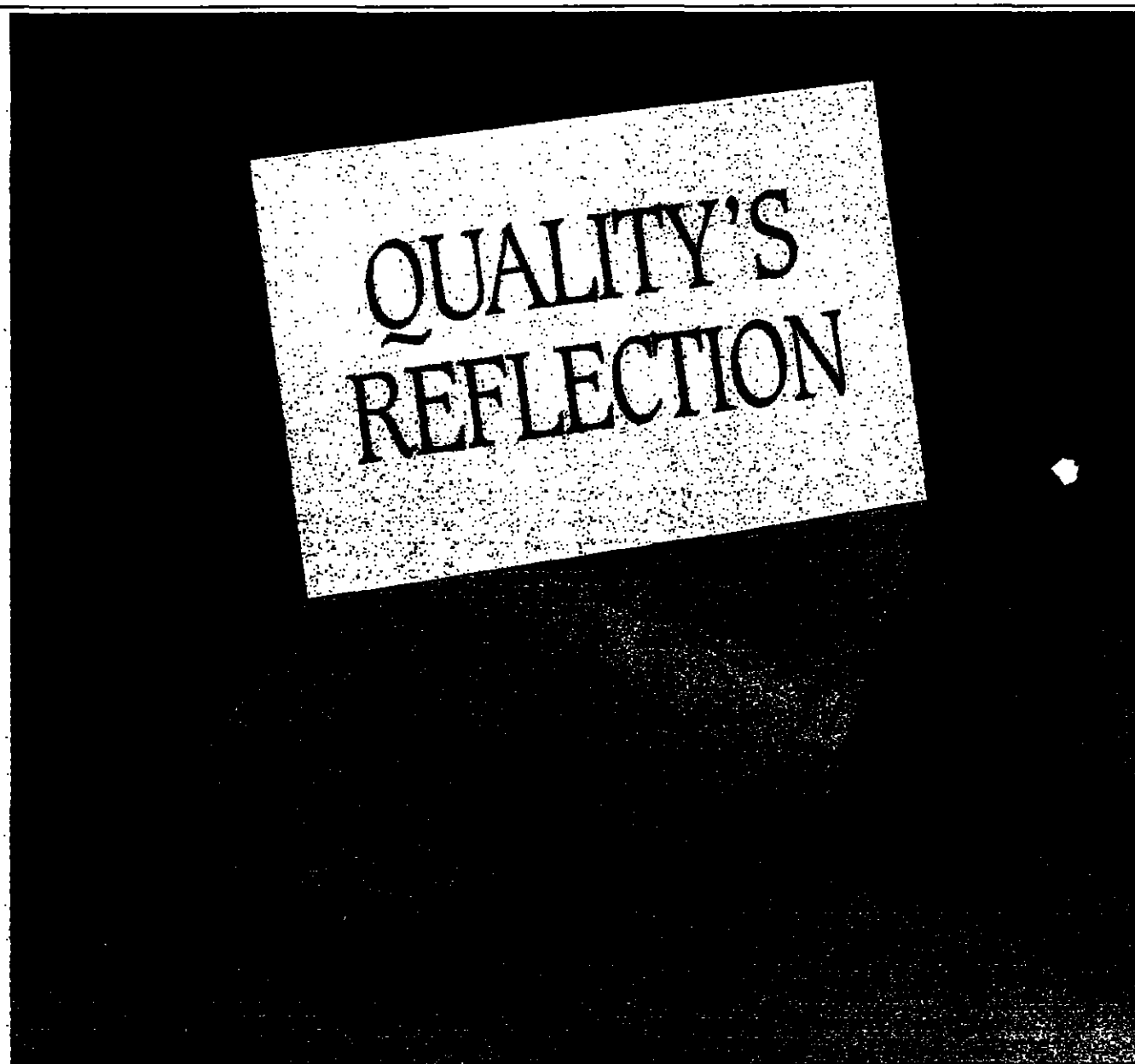
death penalty; the subordination of the armed forces to the Ministry of Defence, rather than leaving them quasi-autonomous under the prime minister as at present; the ending of the state monopoly on radio and television; the restoration of autonomy to Turkish universities which are run by a heavy-handed central body set up by the soldiers; and the restoration of various cultural and historical bodies set up by Atatürk. These changes have little chance of becoming law in the lifetime of the present parliament where the social democrats are a weak and divided opposition to the Motherland

party. But can Mr Özal's followers push through the changes he wants? The Motherland party can certainly find the 150 signatures needed to put proposals before parliament, though its present divisions (and the furore over Mrs Özal's entry into politics) mean that it is by no means certain that its 276 deputies will be willing to co-operate to vote the measures in. Constitutional amendments in any case require a two-thirds majority in the 450-member assembly. So some sort of deal with at least one opposition party is necessary to push the measures through.

The two opposition parties are willing to co-operate provided that they get early elections. Since these will almost certainly be the Motherland party's days as the largest party, this condition is not one which most government deputies view with enthusiasm, not least since they are well paid by Turkish standards and could lose up to a year's income from early elections. Mr Özal would probably have less to worry about from the elections if he had been directly elected as president beforehand. He still has over five years of his original seven year term to run, but has indicated that he would step down and submit himself to the electorate if he gets the chance. General elections after Mr Özal had been installed in the presidential palace at Çankaya, with a fresh mandate, might be different from any under present circumstances.

Many Turks view Mr Özal as a weak and unpopular president whose days in office are probably numbered: a view which tends to overlook Mr Özal's tenacity and proven mastery of political strategy. Will the 1982 constitution thus stumble on, *faut de l'autre*? Eventual modification looks fairly certain, if only because there is no group inside the civilian political establishment committed to maintaining the 1982 set-up. But just when and how the parties will combine to alter it is another matter. Any changes are more likely to be piecemeal amendments passed in a hurry on the eve of elections than a carefully designed system, trying to resolve Turkey's long-standing problem of maintaining a balance between political liberties for the individual and effective government.

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## TURKEY 4

## FOREIGN AFFAIRS: a ball of confusion

## Isolated and suspicious

**CONFUSION.** The Turks have a word for it, *arapsak*, or literally like an Arab's hair.

The Gulf war has exposed Turkey's ambivalent relations with the Arab world - its isolation as a secular but Sunni country heightened by its unequivocal stand in support of the US-led allied coalition.

Look at the map and the Turks' sense of isolation is understandable. Turkey shares borders with six countries. To the east, Turkey remains deeply suspicious of both Iran, a Shi'a Moslem theocratic state, and the pan-Arab nationalists who for the moment at least run things in Baghdad. Syria, a militarily less awesome regime, is blamed for fuelling the separatist sentiments of Turkey's large Kurdish community. To the north the perilous proximity of the Soviet Union, in spite of arms reduction and recent improvements in trade ties, continues to represent the main threat.

Political stability in Bulgaria the Soviets' former Warsaw pact ally, has still to be proven, although moves to establish minority rights for its Turkish speaking community have helped warm relations.

Greece, a fellow member of the Nato should be an ally. But overriding their relationship is the Cyprus question, disputes over oil rights and airspace in the Aegean and the bitter legacy of more than 500 years of shared history.

In the nineteenth century, Turkey was dubbed the sick man of Europe. Turkey today is equally resentful of the suggestion that it should play the

role of the healthy man of the Middle East, as an extension of US foreign policy in the region, the home to some future rapid development force.

During the Gulf war, Turkey's strategic imperatives seemed clear enough. Nonetheless President Turgut Ozal's decision to allow US planes to use the Incirlik airbase to bomb Iraq represented a large challenge to the conservatism of the Turkish armed forces and its traditionally neutral stance in foreign policy which kept the country out of the Second World War.

Turkey's thinly veiled threats to Iran and Syria not to intervene in north Iraq reflected concern about the regional ambitions of these two radical Moslem neighbours. The late of the thousands of Iraqi Kurdish refugees on its southern border, merely underlines the confusion.

President Ozal stresses the need for the economic reconstruction of the region aware that Turkey may be left out of negotiations of any broader Middle East peace settlement because of Arab suspicions.

Officials believe Turkey's decision to stand firm against Baghdad cutting the Iraqi oil pipeline across its territory will have been seen in many Arab capitals as further confirmation of Turkey's historic unreliability. However, the Foreign Ministry seems only too eager to outline how Turkey is different from its Arab neighbours. In that way emphasising Turkey's natural affinity with Europe.

"We are seen as the atheists

of the Islamic world," says Mr Tugay Ozeri, under secretary at the foreign ministry. Turkish policy is still defined by the natural and political boundaries carved out by Kemal Mustapha Atatürk in the 1920s.

In 1921 Turkey established its borders with the Soviet Republics. The Lausanne Treaty of 1923 determined the delicate balance of relations with Greece and in 1926 the Mosul Settlement defined Turkey's borders with Iraq.

Mr Fahir Armaoglu, columnist and professor of international relations, says historically it was a fear of the Soviet Union that drove Turkey to seek its future with the West. Western support for Turkey, even from Ottoman times, was seen as the best guarantee against Russian expansionism. It explains why in the 1920s the great powers settled the straits dispute in Turkey not Greece's favour and why Turkey continues to be seen as a vital partner in the western alliance.

Nato membership serves as the main forum for those broader political and economic ambitions particularly while Brussels continues to ignore its application to the EC.

"It's time Europe shed the shyness it developed after the Suez crisis," says Mr Seyfi Tashan, director of a private foreign policy think tank. "Isn't it clear that Europe's security is also Turkey's security?"

One of Turkey's immediate concerns is that it may be sidelined by the new security architecture being constructed in the wake of the collapse of communist rule in eastern

Europe. Turkey's decision to call for the deployment of Nato's advance mobile force to its border with Iraq, during the Gulf war, contained a clear element of bluff. But if Ankara was seeking Nato's assurance, the response was far from convincing with Germany's initial hesitance interpreted by President Turgut Ozal as the act of the "unfaithful ally."

The president's inclination is to forge closer ties with the US. The Turkish leader is a big admirer of the US and particularly it seems the US system of presidential government.

Turkey's neighbours are watching with some concern as both the US and Germany increase their military aid shipments, partly as a result of arms reduction talks in the central European theatre - the so called cascade effect.

On Europe, opinion is increasingly divided. President Ozal's proposal for a free trade with the US, however impracticable, reflected Ankara's growing impatience with its reception by the community.

Mr Ozeri feels the Commission's reference to Cyprus in its "avis" on Turkish membership was an unfair break with tradition. "The Commission's work is not to pass a political judgment but to take a sort of X-ray of a country's economic position," he says.

It is a measure of this new frustration that many Turks feel it is not just Greece that is playing on Europe's prejudices, but Europe which is willfully fuelling Turkish-Greek enmity.

John Murray Brown

SIX months ago, many of the readers of this survey would probably have been scratching their heads if asked to explain who the Kurds actually were.

Turkey is said to account for about half the world's 20m Kurds. The remainder live in Iran and Iraq, with smaller numbers in Syria and the Soviet Union.

Many of Turkey's Kurds, perhaps 5m, still live in impoverished rural villages in the south-east of the country, tending their livestock in near-feudal mountain communities which provide the backdrop for today's refugee tragedy.

There are a considerable number, some say as many as 1m, Turkish Kurds working as *gastarbeiter* in Germany. This is said to be fertile ground for the separatist Turkish workers' party PKK which since the mid-1980s has been fighting a sporadic guerrilla campaign for an independent Kurdistan.

A larger number of Kurds have settled in Turkish cities, with some, such as the owner of Istanbul's Pera Palace hotel emerging as leading figures of the Turkish business establishment. Indeed the new found prosperity of these urban Kurdish migrants is often given as one reason why the PKK has been so unsuccessful in extending its campaign to Turkey's western region, particularly the big cities.

The Kurds trace their grievance to their treatment under the Lausanne Treaty of 1923, where Turkey ignored Kurdish claims for minority rights, a status given only to the much smaller Greek and Armenian communities.

Since independence there has been a slow but deliberate process of political integration of the Kurdish community. There are Kurdish deputies in parliament. The Motherland party cabinet includes two men of ethnic Kurdish origin - Mr

## KURDISH POLICY

## The genie is out of the bottle

Abdulkadir Aksu, the interior minister and Mr Kamran Inan state minister in charge of the south-east. Even President Turgut Ozal claims to have Kurdish forebears.

It was President Ozal who started the latest discussion of Turkey's Kurdish problem, calling on parliament in January to ease some of the restrictions on the Kurdish language.

In 1983 in the wake of the military coup, Ankara's ban on the use of non-Turkish languages was seen as a further slight to Kurdish cultural sensitivities. Officials say the law was ineffective, and cite the fact that just four people have been charged under its powers since it was introduced.

The law added to the tension in the south-east where more than 2,000 have been killed since 1984. Using its bases in Lebanon's Syrian-controlled Bekaa valley the PKK has launched attacks on local police stations and ambushed other government officials. Under an agreement with the government in Baghdad, the Turkish army has conducted the hot pursuit of guerrillas into Iraq. According to human rights groups many of the victims have been innocent civilians.

A report published last year by the opposition Social Democrat party says that government policing tactics "sometimes takes on the dimensions of a state terror." Today in the south-east it is Turkey's failure

to improve its human rights record that continues to blight its relations with its European and American friends.

In the weeks since the Gulf war ceasefire in February there has been an increase in the number of clashes. Two people were killed when police opened fire on more than 2,000 demonstrators in IZMIR in March. In April, a local district officer was killed together with six other police and civilian officials. The incident at Solhan, west of Van was condemned by Mr Aksu the interior minister who visited the area. The clash followed a sweep of rebel positions in early April.

If the language proposal met with stiff opposition from the nationalists, President Ozal's next move is to invite Mr Jalal Talebani leader of the Iraqi Kurds to talks in Ankara was to prove even more provocative. In between, the president managed to conjure up the idea of a Kurdish federation in north Iraq - Turkey's rather belated response to events in north Iraq where Kurdish rebels at one point seemed poised to defeat government forces from Baghdad. He also announced a political amnesty, apparently to include members of the PKK.

The refugee crisis has left the policy in tatters, with 500,000 Iraqi Kurds at one point threatening to overwhelm Turkey's southern border. Turkey's decision to confine the refugees to the border was a



Many ethnic Kurdish origin

contributing factor in persuading the US to launch its safe haven plans to coax the refugees back to their homes in Iraq.

However, Turkey's policy has attracted widespread criticism and added to the headaches of aid relief agencies trying to help. In the international press, Turkish soldiers have been portrayed sometimes unfairly as looting supplies and causing the refugees with sticks. Much of the goodwill generated locally after President Ozal's earlier moves has probably evaporated.

The longer term impact of the crisis is harder to assess. United Nations Resolution 688 states that Iraq's repression of its people constitutes a threat to international peace and security. Turkey did its best to limit the number of specific references to the Kurds to four.

In the final draft, Turkey had to settle for the phrase "particularly the Kurdish population". As Mr Ozeri put it: "The genie is out of the bottle. For the first time the UN Security Council has discussed the Kurdish question."

John Murray Brown

## Privatization in Turkey

Mankind is entering a new era. Within the last decade of the 20th century, soaring technological developments are coupled with rapidly diminishing economic and political borders. Winds of change are blowing stronger than ever in human history.

## TURKEY'S CHANGING FACE

The ongoing evolution in the world's economic order is also affecting Turkey. Placed at the junction of three continents, the country is presently passing through a period of integration into the World Economy.

The structural reform which has been implemented as government policy since 1983 aims at minimizing State intervention in the economy, and its rationalization through the establishment of competitive market mechanisms. To this end foreign capital inflow has been liberalized, and has reached approximately \$1.3 billion in 1990.

Privatization policy, whose rationale has gained unanimous recognition around the world during the last decade, is a fundamental part of this economic trend. In an age when the globalization of the world economy is being accomplished, the momentum of privatization will continue to keep pace both at home and abroad.

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## TURKEY'S PRIVATIZATION PROGRAM

In Turkey privatization is being conducted by the Prime Ministry's Public Participation Administration (PPA) which was founded in 1984. The Administration presently has 87 companies in its portfolio including State Economic Enterprises, banks, subsidiaries and equity participations. Since 1988 State shares in 20 establishments have been transferred to the private sector through block sale. There have been public offerings of shares in 15 companies so far.

Among firms whose stocks were offered to the public are Ereğli Iron and Steel Works (ERDEMİR), which meets 61% of Turkey's iron and steel demand; Petkim Holding (PETKİM), which supplies 76% of domestic petrochemicals; and Turkish Airlines (THY), which meets 85% of the country's air transport demand.

## INTERNATIONAL OFFERINGS AND BLOCK SALES

The remaining state ownership in these quasi-monopolies, in market share terms, are planned to be transferred to key foreign and domestic core investors within this year.

In February 1991 part of TOFAŞ Oto Ticaret, a major automobile marketing firm, has been sold to Italian FIAT S.p.A. which was already a stakeholder in the company.

Studies are currently underway at the PPA for the global offering of shares in ERDEMİR, PETKİM and Çukurova Elektrik (an electricity supply concern), through quotation on major international stock exchanges during 1991.

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Ereğli Iron and Steel Works (ERDEMİR)

## PUBLIC OFFERINGS AND SALES TO CORE INVESTORS

The program will also continue its rapid pace at home. During the last six months there have been public offering of shares in Konya, Ünye, Mardin, Adana and Afyon cement factories, THY, and the MIGROS chainstore. Privatizations through public offerings on the 1991 agenda are TOFAŞ-Türk Otomobil Fabrikaları - a major automobile manufacturer - and its marketing firm TOFAŞ-Oto Ticaret; GİMA chainstore; Niğde cement factory; NETAŞ, an electronics and telecommunications concern; Turkish Petroleum Refineries (TUPRAS); and Petrol Ofisi (POAŞ), a distributor of petroleum products.

The 1991 agenda also includes the block sale of Türk Kablo, a cable and wire producer; İPRAGAZ, an LPG distributor; Adana Kağıt Torba, a paper bag producer; several fruit juice and soft beverage factories; an agricultural machinery manufacturer and its marketing concern; etc.



PETKİM Holding

## A FLOURISHING CAPITAL MARKET

The Turkish Capital Market is becoming institutionalized thanks to the PPA's privatization efforts. In this context, PPA has closely monitored the supply with a view to enhance the market's depth and build a strong capital market. As in the case of more developed countries, the Istanbul Stock Exchange is about to become an important economic indicator of the country's economic performance.

In an era when Turkey is emerging as one of the strongest economies of this strategic region of the world, Turkish privatization should be looked upon as providing the best opportunity for establishing a new partnership with the largest Turkish companies.

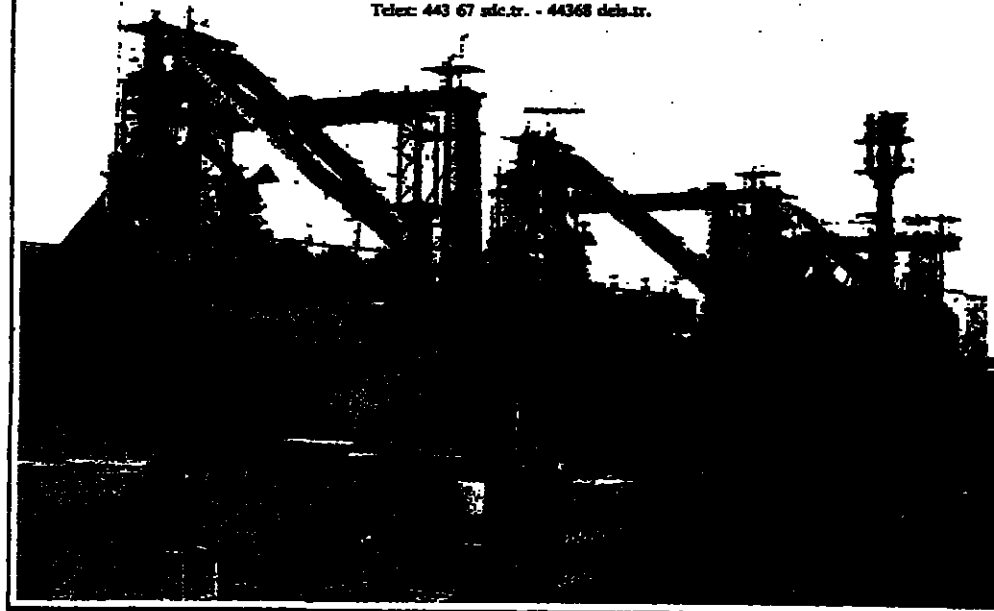
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■RELIGION: a lull in the political and cultural tug of war

# Faith in the post-war climate

IN the aftermath of the Gulf war, there has been a lull in the political and cultural tug of war between Turkey's Islamists and secularists. Overt fundamentalists keep a slightly lower profile than a few months ago and there are fewer women in veils on the streets of the large cities than there were a year ago.

"The Gulf War was a shock for them. First of all, they did not expect Christians to defeat Muslims," says an Ankara academic. "Secondly, the Muslim countries were divided which was another unpleasant reality for them. Thirdly, it looks very much as if the flow of funds from Saudi Arabia and other Islamic countries to fundamentalist groups in Turkey has been interrupted."

There has also been a change at the uppermost levels of Turkish politics. The decision of Mrs Sema Ozal to enter party politics has led to a breach between President Ozal, her husband, and the fundamentalist wing of the Motherland party which includes his two brothers.

century and converted into a mosque in the 1930s by Kemal Atatürk, has loudspeakers on its minarets from which the call to prayer is made, while religious ceremonies are once more held in an outlying room. Turkey's Islamic movement would like to see the basilica once more used as a mosque as a message to Europe and the Middle East about where the country really stands.

Secularists in Turkey are still nervous. Polemics on the religious issue are still not entirely safe. There were three assassinations of leading secularists, last year, including the president of the Turkish Law Foundation, Mr. Muammer Aksoy. None of the killers have been tracked down by the police, who are widely believed to be infiltrated by fundamentalist groups.

Most secularists believe that the religious movement is partly inspired from outside the country. Turkey turns a blind eye to pressures from its neighbours on the religious issue. When President Rafsanjani of Iran visited Turkey earlier this month, he was excused the otherwise obligatory visit to Atatürk's tomb and was greeted by cheering groups shouting Allah is great.

Some Turks even believe that the West, especially the US, would like to see a Sunni conservative re-Islamised Turkey, securely located in the Middle East, thereby sparing Europe the embarrassing question of whether or not to admit Turkey to the EC.

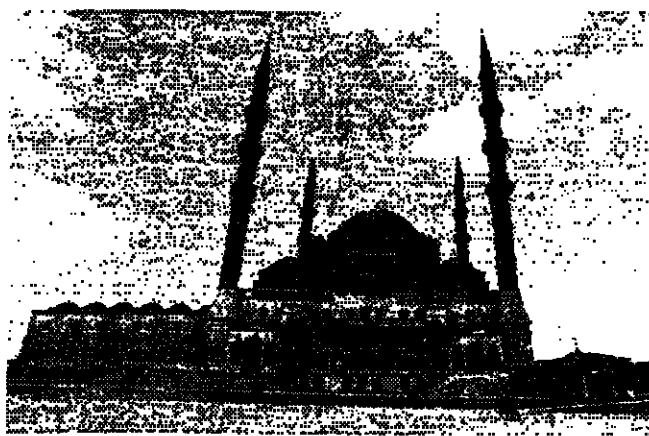
Although Turkey describes itself as a secular country, state and religion are firmly interlocked and it is taken for granted that 99.9 per cent of the population are Muslims, registered as such on their identity documents. No one would think of registering as atheist or Shi'a Moslems.

Formal supervision of Islamic religious affairs is carried out by a department of state, the Presidency of Religious Affairs (PRA), which is attached directly to the prime minister's office.

The PRA, opened in 1986, situated in slightly dreary offices under the shadow of Ankara's vast Kocatepe Mosque complex, is both Turkey's official church and a civil service department just like any other Turkish ministry. Though it was formally established in 1923, it is in fact the continuation under a different name of the Ottoman office of the Seyhülislam, the supreme Islamic dignitary of the Ottoman Empire.

Though rural clergy in gowns and turbans, with flowing beards, can be seen coming through its doors, the PRA is the workplace of sophisticated scholars and administrators, some of them with doctorates from Western universities.

Last year the PRA sponsored the sixth Islamic-Christian Consultative Meeting in Istanbul and it engages in a number of inter-faith contacts. Its role in Turkish national life has grown steadily in the 1980s, first when the Turkish military decided to encourage religion as an antidote to the rising tide of Marxism in



The large Kocatepe mosque in Ankara

schools, and later when Mr Turgut Ozal and the Motherland party came to power.

Today the PRA has a staff of 84,000 people and an annual budget for 1991 of TL1,300bn. Its funding and staff numbers have grown rapidly in the last three years, arousing some adverse comment. There are 37,000 more staff in the PRA than there were five years ago and it plans to expand its foreign operations.

no sectarian conflicts in Islam like those of Catholicism or Orthodoxy in Christianity," says Mr Hamdi Mert, the organisation's deputy president. In practice however, many of the estimated 30 per cent of Turkey's population which is Alevi (a branch of Shi'a Islam) claim that they get no state support for their clergy or shrines, unlike the majority Sunnis.

In the 1980s the PRA has succeeded in getting the numbers of religious schools increased, while in the secular educa-

tional system, religious instruction (one or two hours a week) has been made compulsory for all pupils, with a greater emphasis than in the past on the learning of formulas and rituals.

A wide variety of career opportunities has been opened up for the more than 50,000 students who each year graduate from the clerical vocational high schools. In practice the schools have ceased being simply vocational training for the clergy and are now a religious alternative to the secular high school system.

A controversy is raging in Turkey about whether the process should be taken a step further by recognising Koran school qualifications for lycées. There are about 5,197 officially recognised Koran schools, specialising in Koranic memorisation, with an enrollment of 290,000 students mostly from villages and lower-income families. Do they qualify to go on to lycée at 15 years old?

Mr Mert says that press reports of a row between the PRA and the Mr Avni Akkol, minister of education, (who is alleged to have threatened to resign over the issue) are wide of the mark.

Some of the PRA's activities

do not fit easily inside the Western conceptions of either state or church. It has 15 religious affairs counsellors in Turkish embassies from France to Australia and religious attaches in 21 consulates. Moves are under way to set up offices in the Soviet Union.

These officials supervise 409 clergymen in Germany, 26 in Australia, 63 in France, and more than 800 preachers and prayer-leaders worldwide. In the sacred month of Ramadan this year, a further 357 clergy were temporarily sent abroad to 13 countries, including Outer Mongolia.

These officials count both as overseas religious functionaries and Turkish government employees, an arrangement which may seem a little paradoxical in a secular state, especially as the Turkish foreign ministry has sometimes discreetly warned the tiny number of Christian clergy attached to embassies in Ankara to be careful whom they allow to attend their services.

Some years back, there was a national scandal when it emerged that some of the expatriate clergy had been paid with Saudi funds.

David Barchard

■THE ARMY: uneasy in the post-war environment

# Refugees strain military nerves

coup. It is generally taken for granted that Turkish society and politics is becoming steadily more civilian in its outlook.

Though many middle class Turks regard Mr Ozal and the Motherland party government as an outgrowth or continuation of the 1980 military regime, Mr Ozal has in fact made some gestures towards imposing civilian supremacy over the military. In 1987 he broke with tradition and imposed his own choice as chief of staff. Last year he weathered a further storm when General Necip Torumtay resigned as chief of general staff in protest at Mr Ozal's policies on the eve of the Gulf war.

General Güres, who took over at the head of the armed forces in December, promptly introduced many changes. He allowed groups of journalists to tour the armed forces headquarters and other strategic centres, fostered a debate on whether or not Turkey needs a

smaller but more specialist strike force rather than its unwieldy conscript army, and issued orders that there was to be a strict ban on physical violence in the army.

The aim was to create new public attitudes towards the military and inculcate new values in the ranks. Have these efforts at a sort of military glasnost been blown off course by the tragedy in the mountains above Zakko?

Temporarily they may have been. Outright coups may be unpopular, but Turkish public opinion is accustomed to playing off the military against a weak civilian leader and there is little doubt that on nationalist issues, the man in the street is still certain that his interests are best protected by the military. President Ozal was probably moving too fast for the Turkish public in his attempt to draw the teeth of the growing Kurdish problem in the region by an historic compromise with moderate Kurdish leaders such as Mr

Jalal Talabani of the Kurdish Patriotic Union.

Turkish society and its main institutions have moved very fast in the last year. Many of the main goals of the 1980 coup have been discarded. Communism has been legalised and a communist party established. The use of the Kurdish language is being gradually permitted. The military constitution of 1962 is poised for the rubbish bin. Its successor will almost certainly provide for a president directly elected by the country, rather than through parliament, thus taking ultimate control out of the hands of the traditional guardians of the state among senior bureaucrats in the army and civil service.

At the same time, less is heard in Turkey these days about large investments in defence industries, though a \$4.1bn project to build F-16 fighter jets in a joint venture with General Dynamics is almost complete.

These are not changes that

the military find it easy to adjust to. Turkey sees itself as a country which came into being because the early Ottoman fighters conquered the land from the native Christian Byzantines and remained in existence because it was able to defend itself against Greece and the Western allies after the First World War.

Civilian governments by contrast have a dubious record although they improved in the 1980s and 1990s.

Many officers would probably say this is because of the stern controls the military left in place in 1983. They would probably point to some warning signs: the growing terrorist threat from urban guerrillas in the large cities and assassinations of prominent secularists presumed to be the work of religious fundamentalists.

The greatest test for the civilian system is probably yet to come. All the signs are that Turkey's next government will be a weak coalition rather than the single-party administra-



Turkish soldier watches US marines cross into Iraq

tions which Turkey has had (under slightly fudged conditions) since 1983.

In the 1970s, politicians squabbling for power allowed the country to grind disastously to a halt, so making the 1980 coup inevitable. Not everyone in Turkey is certain that the possibility can be ruled out in the 1990s. But whether or not things go wrong again lies not in the hands of the army but with the country's party politicians.

David Barchard

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THE BANKS: expressing fears about the coming year

# Under pressure to raise rates

IT'S going to be a very difficult year, says the general manager of one of Turkey's largest banks. After a relatively easy time in 1990, when interest rates lagged behind inflation and Turkish banks found it easy to make money, there is pressure on banks to raise their rates for lira and foreign currency deposits.

Turkish banks have to live with extraordinary conditions. An overnight interest rate of 80 per cent is good news in a country where inflation has not dipped below 20 per cent in more than a decade and has stayed around 50 per cent or higher for most of the last four years. Money is made more easily in foreign trade operations and some times in foreign exchange transactions. There is a steady stream of new entrants to this end of the market, many of them companies hoping that they will emulate the profits made by the early trade finance specialists at the beginning of the 1980s.

Recently the large deposit-taking banks have begun to view retail banking and personal loans business as potentially better business than the traditional activity of lending money to companies.

Commercial lending is highly risky as rates to borrowers compound to more than 90 or 100 per cent. Earlier this decade many banks piled up large numbers of non-performing loans. This month, Mr Engin Civan, general manager

of Emlak Bankasi disclosed to reporters that three years ago about 30 per cent of his bank's loans were non-performing but that three years of successive heavy provisions had reduced the proportion to 1.3 per cent.

"We are lending very little to businesses at the moment. The better Turkish businessmen in any case have found ways of raising funds more cheaply outside the country," says a state banker in Ankara. Small businessmen still borrow money outside the banking sector as a result, sometimes for up to the equivalent of 130 per cent a year.

In spite of this Turkish banking in the early 1990s is better regulated and supervised than at any time in its history. Supervision is largely the work of the treasury which steps in when it perceives that a bank is in trouble. Enforcement of regulations rests with the central bank and under Mr Rıdvan Sarıgözü, its governor for the last three years, banks have had to have their accounts externally audited.

Though there are still muffled rumours of collisions between banks and their auditors, and even that in some cases the published balance sheets of banks may differ materially from the results submitted privately to the treasury or the central bank, it is now possible to get a clear idea of how a Turkish bank is performing from its balance sheet. A more important question

one seldom asked in public is whether or not the treasury has sufficient insight into the operations of individual banks to be able to spot danger signs in time.

"There may be treasury officials working at desks inside banks. But it is by no means clear that they have access to all the information they need," says one observer.

For the last two years, banks have been under orders from the treasury to raise their capital



Utusoy: worked to convert Ziraat Bankasi

tal by stages to bring their risk/asset ratios into line with Basle standards. Even so risk asset ratios are not always easily available, and asked to provide them, some bank general managers seem startled.

Nor is cost control easy. Ziraat Bankasi has begun to trim its branch network slightly in the last two years and started to reduce its staff numbers slightly, mostly through natural wastage though there have been some redundancies.

Ziraat, Turkey's state-owned agriculture bank, has not opened a new branch in two years.

"You can't have cost-accounting in an environment like this," says one general manager. "It is out of the question. We can't offer our shareholders cost/income ratios along the lines of Western banks."

At Ziraat Bankasi, personnel expenses have risen 10-fold in lira terms in three years. During this period, the bank has undergone a large internal reorganisation as Mr Cöskün Utusoy, the bank's general manager, a US-trained banker, has worked to convert it from an old-fashioned state credit agency, often used for political

purposes, into a modern international banking group.

Ziraat is a state-owned bank and likely to remain so. But even in the private sector, ownership of the banks tends to be grouped in the hands of individuals, usually industrialists, rather than dispersed among shareholders. Those banks which do have a large number of individual shareholders tend to be dominated by their managements through stakes owned by the banks' own pension funds.

Efforts to break the hold of industry on the banking system have been applied somewhat half-heartedly since the early 1980s. In theory there are tight ceilings on the amount of inter-group lending a bank can engage in.

Occasionally, banks do change hands, but when they do so, it is usually to move from one group to another. Following the resignation last month of Mr Ibrahim Betil, general manager of Garanti Bankasi, a leading Istanbul commercial bank, Koç, one of Turkey's two main groups, engaged in behind-the-scenes talks about purchasing it from Mr Ayhan Şahenk, its present owner.

About the same time, ownership of İmpex Bank, a small trade finance specialist previously owned by Mr Asil Nadir, the Polly Peck chairman, was quietly transferred to the Elyaf family of Adana. They in turn are linked to the Karamehmet family which owns the Çukurova Group, which includes three of Turkey's largest banks, Yapı ve Kredi, Pamukbank, and İnterbank.

Because of the emphasis on proprietorial control, mergers between banks are virtually unknown. As yet the Turkish banking sector is largely insulated from the global banking market and the foreign presence in the market is confined to small offshoots of international groups. This means that there is little pressure for concentration.

Eventually the barriers between Turkey's financial system and the rest of Europe will come down. But in a turbulent environment where an overnight rate of 80 per cent is good news, that day is probably still some way off.

David Barchard

BUSINESS is relatively quiet at present for the men who sell odd lots of brightly coloured bearer shares on the waterfront outside the Istanbul stock exchange. The individual investors whose discovery of the bourse in 1989 helped propel the market to undreamt-of heights last summer have grown more circumspect.

They are deserting the bourse in droves as the Turkish economy starts to look increasingly shaky. Now that interest rates are rising, funds are being switched out of stocks and into bank accounts. The rate on one-year deposits in Turkish lira averages 65 per cent, compared to an inflation rate of just over 60 per cent.

An alternative is to buy foreign exchange, often in the form of wads of US dollars, from the currency dealers in the covered bazaar. After a period of relatively slow depreciation against leading currencies, the lira fell by 30 per cent against the US dollar over the past four months.

Currency speculation, formerly a furtive bazaar activity, has flourished since the lira was made fully convertible, but rumours are circulating that limits on purchases may be imposed if the flight into dollars and D-marks takes on alarming proportions.

Stock exchange administrators seem unworried by the departure of the private investors, who gave the bourse a colourful but chaotic atmosphere considerably at odds with official efforts to make Istanbul appear a model emerging market.

The volume of transactions has actually increased recently despite the loss of many individual investors. It's a healthy sign, says Mr İsmail Kovaci of the exchange. According to figures from the exchange, first-quarter trading volume increased from TL2,000bn in 1990 to TL2,200bn this year. Activity was particularly high in February as the Istanbul market followed the rise in prices in New York and London. Indeed, the bourse's increasing responsiveness to developments abroad is cited as a sign of growing maturity.

At the end of February the ISE index had recovered to 5,102, close to its all-time high of 5,384 last July. Since then it has retreated steadily as post-war euphoria was overtaken by domestic economic concerns.

By early May, the index had slipped below 4,000 again.

Foreign institutional investors who entered the market when capital movement was liberalised in August 1989 are



Waiting to do business outside Istanbul stock exchange

## STOCK EXCHANGE: quieter times as funds switch to banks

# Small investors desert bourse

thought to account for less than 5 per cent of holdings. But interest in the Istanbul bourse remains positive: the International Finance Corporation (IFC), the investment arm of the World Bank, which launched the Turkey Fund - quoted on the New York stock exchange - is preparing another offshore unit trust based on Turkish equities.

Equity trading on the exchange is unlikely to be fully computerised until a move to new premises in the Maslak district which has been delayed by a legal dispute. Present conditions are so cramped that the 400 traders, representing 137 banks and brokerage houses, can barely squeeze on to the floor.

However, screen trading is about to start with the launching of a secondary market in bonds. Over-the-counter bond trading amounted to

TL85,000bn last year in a market heavily dominated by treasury bills and government bonds.

"It's a market that's directed by the government with the demand side mostly controlled by the banks. But I believe the secondary market will encourage a new diversity of financial instruments and in bring many more investors," says Mr Abdullah Akşit, head of the exchange securities department.

Exchange officials are working to improve the regulatory framework. Settlement must be completed on the day after transaction, and reporting is becoming stricter with listed companies required to publish quarterly balance sheets as well as fully binding yearly accounts.

The capital markets board, appointed by the government to supervise the bourse, has

proposed legislation making insider trading illegal. However, doubts remain that it can be effectively applied in Turkey's close-knit business community. In a shallow market with only 117 listings and little emphasis on research, companies often manipulate demand both in buying and selling equity.

"If you have a young emerging market, support buying and selling by companies actually arouses interest. Insider trading should be regulated rather than prevented," one Turkish analyst says.

Increased liquidity would lift confidence in the market: there are hopeful indications as more family-owned companies decide to raise capital through a quotation on the bourse rather than pay borrowing rates of over 100 per cent. But a general reluctance to release more than the required 15 per cent of equity means that it will be a slow process.

The government is helping to deepen the market, both through sales of its minority stakes in listed companies and an extensive, though only moderately successful, privatisation programme. In fact the government-controlled Public Participation Fund (PPF), set up to dispose of state-owned assets through the exchange, is sometimes accused of crowding out other would-be entrants by offering excessive amounts of stock.

However, last year's privatisation of Petkim, the state petrochemicals producer, turned into an embarrassment with PPF being forced to buy back about one-quarter of stock floated only a few months earlier. As a market maker, it had to support the price after Petkim bond holders with share options dumped their shares.

Efforts to sell a 5 per cent stake in Türk Hava Yolları (THY), the national airline, also proved disappointing. The issue was only weakly subscribed and was eventually offered at a discount to THY employees. It raised only TL1.3bn against a target of TL4bn.

In spite of the uncertain economic climate and some unwillingness on the part of banks to underwrite PPF issues for fear they fail to attract enough investors, the fund is planning to dispose of five food companies controlled by Ziraat Bankasi, the leading state-owned bank, before selling off a much larger enterprise, Turkish Petroleum Refineries (Tupras).

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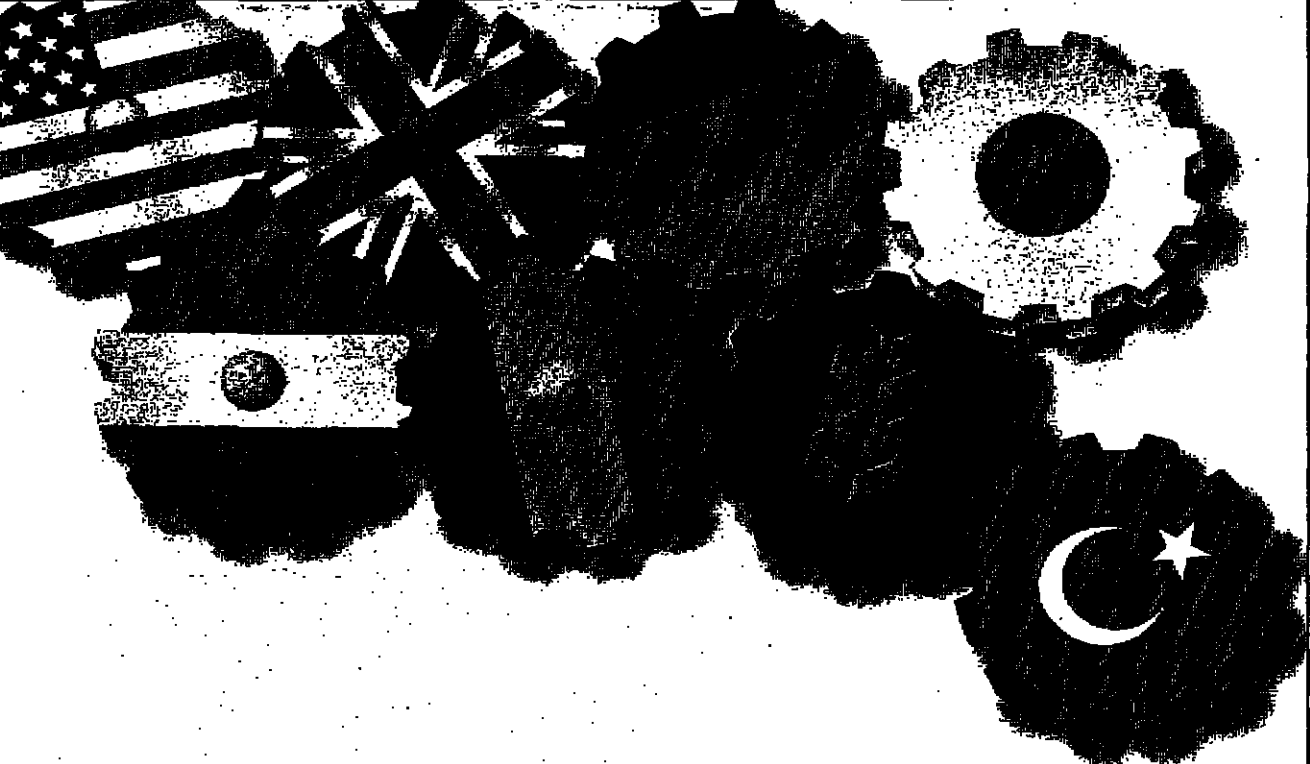
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## TURKEY 8

■ **TOURISM:** the empty tables highlight the change in fortune for the industry

## Down to earth with a painful bump

"LAST year it was raining tourists. This year they're no where to be seen," says an Istanbul restaurant owner, looking disconsolately at an array of empty tables in the cobbled square of Kumkapı, a favourite place for eating fish.

The recession in northern Europe, together with lingering fears of terrorism in the eastern Mediterranean following the Gulf war, has brought Turkey's tourist trade down to earth with a painful bump.

Turkey has enjoyed several years of substantial if somewhat uneven growth in tourism. Receipts rose last year by 30 per cent to an estimated \$3.5bn. The number of foreign visitors totalled a record 5.3m. Such results seem all the more impressive given that cancellations started flooding in after Iraq's invasion of Kuwait last August, only halfway through the season.

However, this year the picture is altogether different. Arrivals are likely to fall by at least 45 per cent, according to Mr Bahattin Yucel, chairman of the Union of Turkish Travel Agencies (Tursab). This would be a much sharper drop than in Greece or Spain, Turkey's main competitors in the European mass tourism market, where a decline in numbers of about 20 and 10 per cent respectively is expected.

"Not even a big rise in late-season bookings can save us this year. The situation is so bad that some operators will be forced to shut down by the end of the year. The government is promising lower interest rates on loans to the tourist industry. Even so, many hotels will be changing hands," Mr Yucel says.

The problems confronting Turkey's newest industry underline the weaknesses of a policy that offers generous incentives for building hotels but pays little attention to developing the co-ordinated marketing and advertising needed to fill them with guests throughout an eight-month season.

Thanks to government assistance that included offering 49-year leases on sites along the southern coast, Turkey's bed capacity has grown from 50,000 to almost 200,000 in officially approved hotels and "pansiyons" in just six years. Larger hotels have been able to cover their operating costs with



The Dozmaabache Palace in Istanbul

occupancy levels of only 30 per cent because of the incentives, encouraging continued new building. By 1994 the number of hotel beds may approach 500,000.

The international hotel chains have helped extend the construction spree to Istanbul, which attracts some 2m tourists annually. The idea is that if more top-quality accommodation is available, the city will become a leading centre for conferences and incentive tourism.

It fulfils the other main requirements: good shopping and a wide choice of both museums and restaurants. The number of beds in first-class hotels in Istanbul will rise from 14,000 to over 25,000 in the next three years, with the opening of half a dozen new establishments. Among them are a second Hilton and the Ciragan, an Ottoman palace built by a 19th century sultan, being restored by the Kempinski Group.

The government's long-term target is 1m beds and 30m tourists a year. But Mr Yucel believes that with better-organised promotion, Turkey's present tourist infrastructure could

KEY FACTS		
Area	789,360 sq km	
Population	57.2m (1990 estimate)	
Head of State	President Turgut Ozal	
Currency	Lira (TL)	
Average Exch Rate	1989 \$1 = TL2.122 1990 \$1 = TL2.609	
ECONOMY		
	1989	1990
Total GDP (\$bn)	78.5*	106.9*
Real GDP growth (%)	1.1	9.0*
GDP per capita (\$)	1,417	1,903
C'sumer prices (% change pa)	63.3	61.0*
Reserves minus gold (\$bn)	4.8	6.2
Money growth (M1, % pa)	59.8	87.2*
Discount rate (% pa, year end)	54.0	45.0
Total external debt (\$bn)	41.6	na
Debt service ratio (%)	32.1	na
Current account balance (\$bn)	0.97	-2.40*
Exports (\$bn)	11.77	12.00*
Imports (\$bn)	15.97	30.00*
Trade balance (\$bn)	-4.20	-18.00*
Main trading partners (1989, % by value)		
West Germany	18.7	14.0
Italy	8.4	6.8
US	8.3	13.2
EC	46.6	38.4
Middle East	24.7	18.6
	* EIU estimate	
	** 2nd Quarter figure	

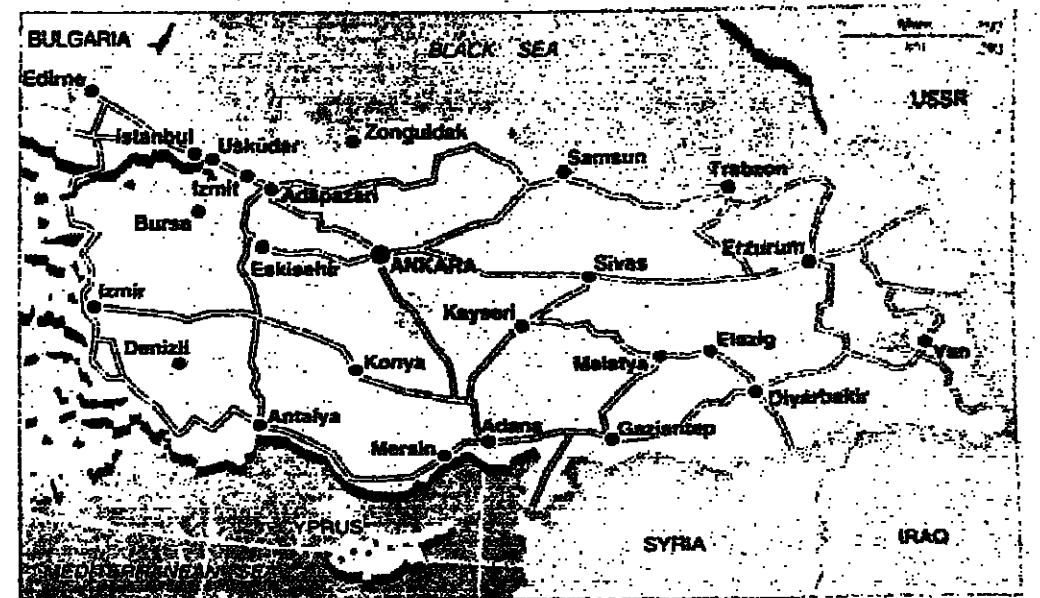
Source: IMF, Datastream, Economist Intelligence Unit

handle as many as 10m visitors a year. He admits that high inflation and interest rates are a disadvantage, making it hard to predict prices from one end of the season to the other.

On the other hand, the quickening pace of depreciation of the Turkish lira should increase the country's chances of recovering lost ground next year. "But unless we can mar-

ket our tourist product more effectively abroad, we'll always be the first Mediterranean destination to suffer when things get difficult in northern Europe," he says.

Established Turkish tour operators are postponing plans for expansion. One of them, Camel Tours, specialised in operating coach tours to some of the thousands of archaeolog-



ical sites scattered across Turkey before joining the rush to invest in the south coast. "Business was growing so fast we were involved with hotels and were even thinking of setting up a charter airline. But in this situation, we are concentrating again on the historic places," says Mr Esat Yalcin, the general manager.

While more four-star hotels can be found within easy reach of ancient sites in Anatolia - sometimes to the detriment of the surroundings - it is clear that historical and cultural tourism has largely been overtaken by the sun-and-sea alternative. If Turkey has opted for mass tourism along its Mediterranean coast, there are plenty of other places to explore.

People looking to escape from crowded beaches should try Turkey's mountainous Black Sea coast. Cooler weather conditions there make for a short season lasting only about three months, which means the region may escape the developers' attention for some time to come. Still, the frenetic pace of hotel construction in the south-west will certainly slow down, if only temporarily, as a result of this year's plunge in occupancy levels. Some rethinking is under way at Belek, a project west of Antalya, and an example of how the Turkish tourism industry has fallen into the same trap as Spain and Greece in earlier years.

The plan was to build seven first-class hotels along a 15-kilometre strip of pine-shaded beach. But the project now

includes 25 hotels with a total of 18,000 beds, as well as a series of 18 and 36-hole golf courses to be constructed over the next three years. The golf courses, the first at a Turkish resort, are intended to increase earnings by lengthening the tourist season to 10 or 12 months in the Antalya region.

"We are thinking of halving the number of beds in our hotel at Belek because of the pressure on the space," says Mr Muharrem Kilit of Mesa Touristic Facilities.

"Think of the problems finding and training the thousands of staff needed for such a big complex. And who wants to play golf on six courses all in one place? Overbuilding is not the right approach to tourism."

Kerim Hlope

■ **PATENTS:** draft bill comes off the shelf

## Ministers divided over measures

FOR the past seven years, as prime minister and president, Mr Turgut Ozal has been promising that Turkey's patent laws will be revised.

Today, a long-pending draft bill looks as if it may finally be coming off the shelf. There is just one problem. The bill needs the whole Cabinet's signature. But two ministers will only sign if it continues to exclude protection from pharmaceuticals. And four ministers will only sign if it includes pharmaceuticals.

The cavalier way in which local pharmaceutical compa-

nies pirate products is why Mr Halil Sivgin, minister of health, faced a rough hearing in London for his attempts to encourage British imports of Turkish pharmaceuticals. A number of foreign companies are refusing to invest until patent protection is introduced.

The patent issue is only one of the problems in the field of intellectual property which have caused the US to put Turkey on its watch list. Other issues are the inadequacy of copyright laws for books and computer programmes and the

lack enforcement of such laws as do exist.

Publishers such as Longman have had to face photocopy piracy of their English language teaching books - losing, they estimate, 80 per cent of their market - as have producers of German medical books and Italian art books. Oxford University Press is suing its former agent, Haset, and the UK Publishers' Association has initiated several dozen lawsuits.

The maximum fines are not striking. But conviction does carry the deterrent of opening

the way to a criminal prosecution for theft.

Similar problems exist with electronic data. The Turkish Information Systems and Industrialists' Association, Tubisad, has been promoting a revision of the penal code. The current draft changes foresee up to six years' prison for illegally procuring, corrupting or destroying electronic data.

However, Mr Murat Kasargu, secretary general of the association, complains that there is no formal legal definition of electronic data, meaning that the courts are reluc-

tant to act. However, software houses have found their would-be exports seized by the security police on secrecy grounds.

Still, Turkey is not a total pirates' paradise. In 1987, following intensive lobbying by Warner Brothers and United Artists, a law controlling movie, video and music piracy came into force. The companies say this has been working well. To the envy of the international pharmaceutical companies.

David Tonge

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